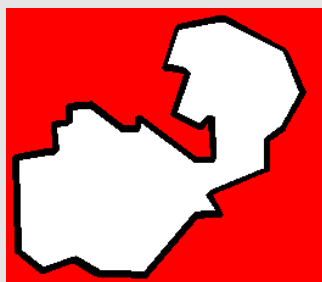


# **Fiscal Decentralisation and Sub-National Government Finance in Relation to Infrastructure and Service Provision in Zambia**



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## **MAIN REPORT**

A collaborative Study between  
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**Institute of Economic and Social Research (INESOR) at University of Zambia**

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## CHAPTER ONE

# FISCAL DECENTRALISATION AND SUB-NATIONAL FINANCE IN SUB-SAHARAN AFRICA

### **1.1 Introduction**

This Report describes and analyses the process of decentralisation from the centre to sub-national governments<sup>1</sup> in Zambia. The analysis examines the structure of local governments, the strategy and objectives of decentralisation, the experiences of fiscal decentralisation, infrastructure and service provision (ISP), the regulatory and legal framework for local governments and their institutional environment. The Study has been commissioned by the World Bank as a part of a regional project to study local governments and fiscal decentralisation in six countries of Sub-Saharan Africa: Zambia, Senegal, Ghana, Uganda, Swaziland and Zimbabwe.<sup>2</sup> This Report on Zambia, therefore, should be seen as only one of the components of a much larger initiative.

Decentralisation and effective devolution of responsibilities from central to strong sub-national governments can be an effective way to address service provision, economic development and the involvement of citizens and private investors in the provision of common goods. Decentralisation of responsibilities has been shown to increase the level and quality of public services and lead to a more efficient use of scarce resources.<sup>3</sup> Thus, many countries now seek to increase the extent of decentralisation through a variety of strategies. In this regard, many African countries are developing new systems of local government finance and methods of infrastructure services provision (ISP). They are also reforming their regulatory and institutional frameworks. This Project investigates the recent experiences in six Sub-Saharan African countries by ascertaining the degree to which they have realised their set objectives using specific decentralisation indicators.

The long-term objective of this Project is to strengthen the process of decentralisation within the region by bringing local governments closer to financial markets, strengthening the system of ISP and establishing effective and stable administrative and legal environments. The strengthening of human resources capabilities is seen as an important part of this process.

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<sup>1</sup> In this report, the terms '*local government*' and '*sub-national government*' are used to describe the level of governments below the central government. The type of sub-national governments varies from country to country; but, in all cases, emphasis has been placed on selecting authorities that, to some extent, are directly accountable to local populations through some kind of an electoral process.

<sup>2</sup> The countries have been listed in the order in which the research was undertaken.

<sup>3</sup> Chapter 3 in this Report pays more attention to some of the reasons behind decentralisation in Zambia.

The immediate objective of this Project is to undertake an analytical and consultative approach to this subject in the six Sub-Saharan countries identified above. The results of this work are intended to provide useful new information and bring a greater degree of clarity and consistency to regional understanding of the requirements of decentralisation. This, in turn, is expected to lead to more efficient mobilisation of donor, public and private sector resources.

- The main objectives of the Project, more specifically, are to:
- Facilitate the *identification of priorities* within each of the case study countries regarding the appropriate systems, procedures and processes of decentralisation. The findings, including the identification of decentralisation indicators, will also allow the future monitoring of the extent and nature of decentralisation in the research countries. The data should make it possible to measure progress toward achieving the objectives of decentralisation in the participating countries in the future.
- Foster *cross-national learning on best practises* within the field of decentralisation *vis-à-vis* ISP. The Study examines various models for decentralisation and alternative ways of providing and financing infrastructure and other local government services.
- Support private and public investors, as well as the donor community, in the *identification of future needs and possibilities for investment* in infrastructure and service provision at the local level and in the identification of future projects within the field of administrative and human resource capacity building. This research, with its database of decentralisation indicators, should provide a valuable guide to potential investors and international development banks (IDBs) in promoting the emergence of a regional market. It is hoped that by using this database and resultant private and IDB infrastructure investment plans, bilateral donors and the countries themselves will be able to plan capacity building programmes more effectively.

The study focuses on “*decentralisation*”. The definition of decentralisation varies across countries and between actors within various countries. In the Study, decentralisation is defined as “*devolution*”<sup>4</sup> of power to independent sub-national

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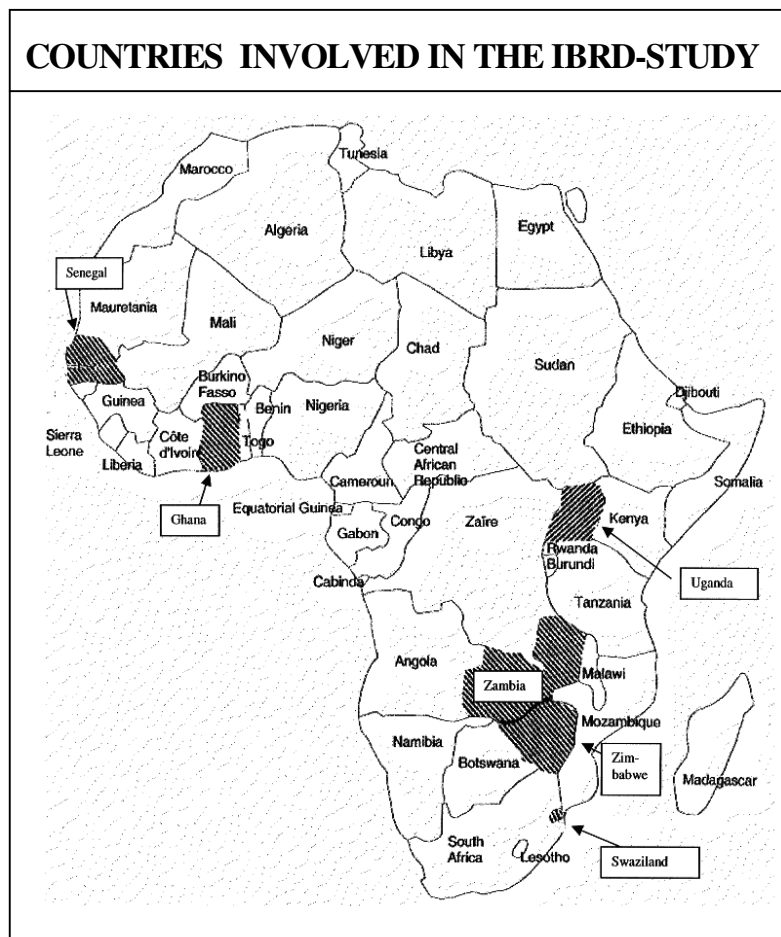
<sup>4</sup> This is in line with the definition made by Richard M. Bird, Robert D. Ebel and Christine L. Wallice (eds.), *Decentralisation of the Socialist State, Intergovernmental Finance in Transition Economies*, Regional and Sectoral Studies, World Bank, 1995, pp. 11-13. The term ‘devolution’ implies the transfer of responsibility and competence to democratically independent lower levels of government. This term is to be viewed as opposed to the term “deconcentration” that implies transfer of responsibility from central ministries to field officers at the local or regional level, thereby becoming closer to the citizens while remaining part of the central government.

governments that are given responsibilities for determining the level and the quality of service to be provided, the manner in which those services are to be provided, and the sources and types of funding for the delivery of those services. Decentralisation is seen as a gradual process where no countries are either fully decentralised or centralised. The study concentrates on the relationship between the central and the sub-national governments and not on the deconcentration or delegation of power within the central government system to regional or local agencies/offices.

The study analyses the major elements of decentralisation from central to sub-national governments, e.g. fiscal, administrative (tasks and decision-making power) and personnel management (e.g. competence within the field of hiring and firing) decentralization.

## 1.2 The African Context

The Study comprises the six African Sub-Saharan countries (indicated below) selected for their expressed commitment to decentralisation of the public sector.



The Africa region is experiencing increased demand for infrastructure. This arises in part from rapid growth of rural and urban populations that require basic infrastructure

for well-being and productivity. Well-functioning infrastructure is also a pre-requisite for productive investment and economic growth. In most African countries, fiscal resources are woefully inadequate to meet these demands, and/or the fiscal arrangements are not appropriate for this purpose. In addition, the structure of inter-governmental fiscal relations often does not provide adequate resources or incentives for improving infrastructure and services.

Decentralisation efforts in the African region are shifting much of the burden of infrastructure management and finance to sub-national levels of government. Many local governments are newly formed and lack the capacity to fulfil these responsibilities, cf. the key-information in the following figure.<sup>5</sup>

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<sup>5</sup> Financial data are drawn from the present Study on Fiscal Decentralisation (1998-2000). Figures shown for Zambia represent the average of 1994-97. Figures for Uganda date from 1997/98. Figures for Swaziland, Senegal and Ghana are from 1997.

## PROFILE OF COUNTRIES INVOLVED IN THE STUDY

ZAMBIA		SENEGAL	
<b>Population:</b> Total: 9.215 mill. (1996) Annual growth rate: 2.8% 15-64 years age: 5 mill. Above 64 years age: 3.7%	<b>Local Government (LG):</b> Year of recent LG-reform: 1991 No of levels of LG: 1 No. of LG: 72 Average staff: 1133 (1) Average Population: 128,000	<b>Population:</b> Total: 8.534 mill. (1996) Annual growth rate: 2.5% 15-64 years age: 4 mill. Above 64 years age: 4.6%	<b>Local Government (LG):</b> Year of recent LG-reform: 1996 No of levels of LG: 2 ( ) No. of LG: 60 urban, 320 rural 10 regions Average staff: 474 (1) <b>Public Finance (revenues): (97)</b>
<b>Geography:</b> Area: 762,000 sq. Km. Density: 12.1 inhab/sq. Km. Vegetation: High Plateau Savannah <b>Climate:</b> Tropical	<b>Public Finance (revenues):</b> Total revenue share of GDP: 21% LG revenue share of GDP: 0.8% <b>Sources of LG revenue: (97)</b> Own taxes: 21% Transfers: 3.4% Fees/charges: 23%	<b>Geography:</b> Area: 197,000 sq. Km. Density: 43.3 inhab/sq. Km. Vegetation: Savannah Semi dessert <b>Climate:</b> Tropical	<b>Sources of LG revenue: (97)</b> Total rev. share of GDP: 24% LG rev. share of GDP: 2% Transfers: 22% Fees/charges: 23% Own taxes: 43%
GHANA		UGANDA	
<b>Population:</b> Total: 17.522 mill. (1996) Annual growth rate: 2.7% 15-64 years age: 9 mill. Above 64 years age: 4.8%	<b>Local Government (LG):</b> No of levels of LG: 2 (2) Year of recent LG-reform: 1998 No. of LG: 110 Districts + units Average staff: 540 (1) Average Population: 159,300 <b>Public Finance (revenues): (96)</b>	<b>Population:</b> Total: 19.741 mill. (1996) Annual growth rate: 3.2% 15-64 years age: 10 mill. Above 64 years age: 3.6%	<b>Local Government (LG):</b> No. of LG: 1050 Year of recent LG-reform: 1997 No of levels of LG: 3 Average staff: 446 (1) Average Population: 18,800 <b>Public Finance (revenues): 97/98</b>
<b>Geography:</b> Area: 238,000 sq. Km. Density: 73.6 inhab/sq. Km. Vegetation: Rain Forest <b>Climate:</b> Tropical	Own taxes: 18% Total rev. share of GDP: 5.3% LG rev. share of GDP: 2.5% <b>Sources of LG revenue:</b> Fees/charges: 18% Transfers: 64%	<b>Geography:</b> Area: 236,000 sq. Km. Density: 83.6 inhab/sq. Km. Vegetation: Savannah <b>Climate:</b> Tropical	Own taxes: 15% Total rev. share of GDP: 16.1% LG rev. share of GDP: 4.5% * <b>Sources of LG revenue:</b> Fees/charges: 5% Transfers: 66%
SWAZILAND		ZIMBABWE	
<b>Population:</b> Total: 0.926 mill. (1996) Annual growth rate: 3.1% 15-64 years: - Above 64 years age: -	<b>Local Government (LG):</b> Year of recent LG-reform: No of levels of LG: 1 Average Population: 15,380 (1) No. of LG: 13 Average staff: 118 (3) <b>Public Finance (revenues): (98)</b>	<b>Population:</b> Total: 11.248 mill. (1996) Annual growth rate: 2.4% 15-64 years age: 6 mill. Above 64 years age: 4.7%	No of levels of LG: 1 <b>Local Government (LG):</b> Year of recent LG-reform: - No. of LG: 81 Average Population: 138,860 Average staff: N/A <b>Public Finance (revenues): (97)</b>
<b>Geography:</b> Area: 17,000 sq. Km. Density: 47.1 inhab/sq. Km. Vegetation: Savannah <b>Climate:</b> Sub-Tropical	Total rev. share of GDP: 33.8% Own taxes: 71% LG rev. share of GDP: 0.7% <b>Sources of LG revenue:</b> Transfers: 18% Fees/charges: 6%	<b>Geography:</b> Area: 390,000 sq. Km. Density: 28.8 inhab/sq. Km. Vegetation: Savannah <b>Climate:</b> Tropical	LG revenue share of GDP: 3.0% Total revenue share of GDP: 36% Transfers: 33% <b>Sources of LG revenue:</b> Fees/charges: 35% Own taxes: 21%

(1.) Average staff in sample SNGs (unweighted average). (2) Ghana has a large number of sub-units from 1998, approx. 16,000 units, public elected. (3) Only urban areas, estimated to cover approx. 200,000 inhabitants with 13 SNGs.

As part of their decentralisation efforts, many African countries have begun to address *fiscal resource allocation and mobilisation*. This is an absolute necessity, but public resources are clearly not enough. Considerable *private financing* is also needed to meet the demand for infrastructure and services. In general, Africa has yet to attract significant private investment in infrastructure provision (especially electricity, urban water and solid waste), although some successes are starting to be registered.

To promote private sector participation, much more work needs to be done to ensure sound macro-economic fundamentals and good governance. Effort also needs to be made to develop capital markets and enhance the regulatory framework, institutional capacity and creditworthiness of utilities and local governments. In addition, the right mix of public financing (taxes, grants and user charges) is crucial for an efficient public sector.

Capital markets in African countries remain underdeveloped, and macro-economic stability, an essential requirement, is often lacking. Banking systems are weak and lack an effective regulatory framework. An enabling environment does not exist in most cases for long-term investments by social security agencies, pension funds and insurance companies.

Many governments are choosing to pursue decentralisation/municipal-strengthening programmes for a variety of reasons. The transfer of responsibility for local services to local authorities can help to limit demands on over-stretched central government budgets. Decentralisation can also allow a more efficient response to the needs of rapidly growing populations dispersed across extensive hinterlands. Broader government objectives to foster local democracy and accountability may also be supported through decentralisation processes, e.g. by bringing a closer relationship between the assignment of tasks and the financing of these tasks.

Multilateral and bilateral donors have also been broadly supportive of decentralisation initiatives in Africa and throughout the developing world in recent years. Many donors share the common objectives of linking enhanced service and infrastructure provision to the promotion of democratic processes and improved governance. Donors have naturally tended to focus their support on aspects of the decentralisation process that match their institutional strengths. Many bilateral donors have focused, for instance, on capacity building at the local level, legal and legislative reform and municipal administrative systems. IDBs have followed their comparative advantages by focusing on finance provision for key infrastructure and, increasingly, addressing market reforms required to mobilise private participation in provision of local services. In an increasing number of cases, donor support has been co-ordinated to assist government reform programmes more effectively.

The existing and proposed World Bank-assisted municipal infrastructure and strengthening projects in Sub-Saharan Africa encompass hundreds of millions of dollars in financing and include tens of millions of dollars required for complementary capacity building activities. To date, co-ordination among donors has been achieved by supporting country-specific projects. However, this approach has limited the scope of reform efforts, particularly in terms of promoting capital flow within the region into municipal infrastructure.

Among the diverse motivations and strategies of both governments and donors, the factors common to all decentralisation initiatives are the need for co-ordinated access *to finance* for critical infrastructure and services in tandem with *capacity building* at the local level. Some regional studies in Europe and Latin America show that the

transfer of responsibilities for tasks to the local level without a parallel transfer of financial responsibilities (or the opposite) may lead to inappropriate results.<sup>6</sup>

### **1.3 The Regional Approach and the Methods of Work**

Sufficient experience around the world has now been gained to allow development of a more systematic definition of the types of reforms and modes of assistance required to support government decentralisation initiatives.

The countries in which the World Bank is active in the Sub-Saharan region are at various stages in the decentralisation process. Indeed, taken as a group, these countries comprise a virtual continuum of the steps necessary to build strong municipal governance and infrastructure delivery systems. Given the rapidly emerging regional economy, the common goals of each of these countries in terms of delivering infrastructure through strong local governments, and the successful country-specific co-operation of the Bank and other donors, it would appear that a *regional approach* to building local government capacity and developing municipal finance markets would achieve a number of key efficiency gains.

Primary among these potential efficiencies, the research should improve *information flow* and assistance to participating countries in the region. By drawing participating countries into a regional effort, individual reform efforts should be greatly strengthened by the sharing of information on specific activities being undertaken in different countries. In addition, a regional programme should provide a *focal point* for private investors seeking to invest and participate in infrastructure and service provision. Finally, a regional approach should allow more efficient programming of donor resources over longer time horizons.

A key element in organising a successful regional programme of municipal capacity building and financial market development is a definition of a reform framework that builds on regional examples, systematizes the key areas of reform and emphasises the interdependence of these reforms, leading to the desired ends. The first step of such a *framework* has been developed and is discussed in the following chapters. The framework contains indicators on the following five subjects:

- The division of tasks and responsibilities between various governmental levels and the general context for local governments, including the central government's commitment to decentralisation (Chapter 3)
- Municipal finance systems, including indicators on local government revenues, expenditures and inter-governmental fiscal relations (Chapter 4)
- Elements of well-functioning municipal infrastructure delivery systems and infrastructure investment inventories (Chapter 5)
- The regulatory and legislative environment (Chapter 6)

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<sup>6</sup> One example of this is the World Bank Policy Research Working Paper, No. 1387, "Fiscal Decentralisation and the Size of Government", Jaber Ehdai, December 1994.

- The institutional framework and basic capacity building requirements, including civil service reforms (Chapter 7)

Chapter 2 also contains an overview of international experience in the field of decentralisation, particularly as it relates to fiscal concerns. The elements of importance regarding local government infrastructure and service provision are dealt with separately, but are linked in the conclusions and recommendations presented in Chapter 8.

### ***1.4 Indicators of Decentralisation<sup>7</sup>***

As mentioned above, the analysis examines not only fiscal elements of decentralisation (e.g. revenue and credit possibilities), but also the institutional and regulatory environment for local governments and its interface with the financing of services and infrastructure. A large range of indicators covers different elements of decentralisation, although they are only partial measures of a complex system. Many of the indicators of decentralisation are interdependent and are assumed to have an impact upon each other. It is, for instance, not sufficient to have a large local government sector ratio in public expenses without a certain degree of influence and autonomy on the revenue and expenditure side. On the other hand, there is no value in having a high level of own expenditure decision-making power without some degree of control over the finance for services and infrastructure and access to stable revenue sources. The type and number of controls operating across levels of government are also key factors for measuring the level of decentralisation. Analysing the finance of infrastructure and services is necessary, but not sufficient. The regulatory and institutional framework must also be considered. It is, for instance, not appropriate to transfer all responsibility for service and infrastructure provision to local authorities that lack the human resource capacity to carry out their functions and to manage their financial autonomy.

There is no standard model for decentralisation applicable to all countries in the world or in the region. Appropriate decentralisation approaches have been initiated with different speed, form, content, and procedure in various countries. Nevertheless, some major characteristics must be in place for decentralisation of government power actually to take place. Analysis of similarities and differences between country-specific decentralisation experience should help identify practical solutions for making central/local government relations more efficient, effective and accountable to citizens. The indicators for decentralisation will be systematised in a final synthesis report for the six countries.

A regional framework for municipal strengthening and infrastructure investment aims at being useful as both an analytical and an organisational tool. At the analytical level,

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<sup>7</sup> The problem of available data should be mentioned here. No common system of compiling statistics in the field of local government exists worldwide. There are several systems, each with its own logic, but none of them currently approaches the issue of finance from the sub-national government viewpoint. Therefore, the data should be evaluated with great caution. Despite these problems, the inevitable imperfections of this project should not hinder a first step in development of measures for comparisons and evaluation of progress.

compilation of data on infrastructure investment requirements, municipal finance systems, and relevant reforms inform each of the participating countries of the *tasks ahead*, while, at the same time, allowing quantification of country-specific and overall regional *needs for assistance*. On an organisational level, compilation of this framework should allow governments and donors to share information and programme assistance more efficiently over a longer time frame corresponding to each country's anticipated needs. It is also our hope that programming assistance on a multi-country or regional basis will provide greater flexibility to deploy resources in response to the rate at which key reforms are achieved in specific countries.

### **1.5 Finance and Organisation**

A programme of the type described above is very ambitious. Therefore, the World Bank has identified a manageable *first step* as embodied in its "*Fiscal Decentralisation and Sub-National Finance*" programme which has been approved for funding under the Danish Trust Fund and USAID. This programme, which covers analysis of decentralisation in six countries (Zambia, Senegal, Ghana, Uganda, Swaziland and Zimbabwe), has been carried out in co-operation between the World Bank, the National Association of Local Authorities in Denmark (NALAD), USAID and local consultants in each of the six countries.<sup>8</sup>

The programme has emphasised the involvement of local experts in all phases of the country analyses and close contacts with the central and local government levels. The system in each country is examined both at the aggregate level and by use of sample local authorities representing different types of sub-national governments. These sample local authorities have been analysed in-depth and compared with the aggregate data at the central level.<sup>9</sup>

The *second step* is a discussion of the results of a national workshop held in each country and involving stakeholders from all levels of government, donors and experts within the field. The major findings of the national workshop are summarised in Chapter 9. A Sub-Saharan regional seminar will be held in mid-2000. There, research findings for the six countries will be compared, and regional lessons drawn.

The *third step* will entail the preparation of a regional synthesis report. The regional synthesis report will include broader benchmarks and indicators of progress in implementing decentralisation programmes on a regional basis.

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<sup>8</sup> The World Bank and NALAD have co-ordinated the work in all six countries. The Danish Trust Fund has financed the majority of the costs in four of the research countries and a part of the costs in the two other countries. USAID has financed the majority of research costs in the two of the countries (Ghana and Zimbabwe) and supported the study within the Zambia and Senegal.

<sup>9</sup> Official statistics (IMF, OECD, national statistics etc.) combined with information from the sub-national and central governments has been used in the analysis. No single, unanimously accepted source of statistics for all countries in the world exists for finance, infrastructure and service provision of sub-national governments. Therefore, it has been necessary to adopt a pragmatic approach, where the official data have been combined with information available in the country and through experts at the central and local levels.

### **1.6 Executive Summary of Main Findings and Recommendations**

This Study has been funded by the World Bank, DANIDA and USAID and is based on a collaborative effort between the National Association of Local Authorities in Denmark (NALAD) and the Institute of Economic and Social Research (INESOR) of the University of Zambia. The Study is a part of a larger initiative, covering six countries (Zambia, Senegal, Uganda, Ghana, Swaziland and Zimbabwe) of Sub-Saharan Africa and has the following main objectives:

- identify priorities in each of the six countries regarding systems, procedures and processes of decentralisation;
- foster cross-national learning on best practises; and
- support private and public investors (national, as well as international) in the identification of future needs for investment in infrastructure and service provision at the local level, as well as the need for investment in capacity building in the field of administration and human resources.

The focal point of the Study is the sub-national governments and their environments in each of the countries.

The Zambian system of decentralisation has been investigated by using data and material from the central, as well as the local government, level. Six sample local authorities were involved in the Study, representing different types and sizes of sub-national governments (SNGs). They were Lusaka, Livingstone, Ndola, Petauke, Kalulushi and Chibombo

The overall conclusion, based on the findings from the six sample local authorities, is that *the level of infrastructure and service provision (ISP) in Zambia is far below the needs of the population (approx. 50%–60% are covered in the main areas of health, water supply, sewerage, solid waste collection, roads, etc.)*. There are two major and mutually reinforcing sets of constraints that compromise sub-national government efforts in ISP and in their effort to develop a strong and sustainable system of fiscal decentralisation:

- A coherent enabling environment is generally lacking, especially within the field of sub-national government finance. The unstable and unpredictable system of state transfers and central government control of the budget process, revenue base and tax/fee rates are clear examples of this.
- The severely limited administrative capacity within each of the SNGs has had a negative impact on the opportunities for development of a stable process of fiscal decentralisation in the short-term.

On the other hand, there is a great potential for increasing the sub-national government's revenue base, even without changing the tax rates or user fees. There are also possible ways of improving the financial, regulatory and institutional framework within which councils operate. Fiscal reforms that focus on the reduction of

central government control over sub-national finances, complemented by a system that ensures the stability and predictability of state transfers to sub-national governments, are the areas that most urgently need to be addressed to support the process of fiscal decentralisation and to strengthen councils' finances.

### ***International Experiences with Decentralisation (Chapter Two)***

Chapter Two highlights some of the international experiences with decentralisation. The analysis shows that there are many ways to obtain the most efficient level of decentralisation and the right mix between local autonomy, local capacity and the central government's need for co-ordination, especially in the field of finance. However, certain principles for revenues/expenditures and budgetary autonomy are generally accepted. Specifically with respect to the main chapters of this Report, a number of conclusions and recommendations are made below.

### ***The Context of Decentralisation in Zambia (Chapter Three)***

This Study's findings should be considered in the context of the adverse economic conditions that characterise Zambia, particularly following the fall in copper prices on the world market in the mid-1970s and afterwards. The economic adversity has translated into reduced social welfare and, consequently, the declining ability of citizens to pay cost-recovery user charges and fees for the services that sub-national governments provide. This state of affairs has contributed significantly to councils' reduced capacity to generate sufficient financial resources to meet the ever-increasing demand for infrastructure and related services.

Chapter Three examines the structure of government in Zambia, the role of local governments and the official policy concerning decentralisation. The analysis shows that many tasks within the field of ISP are the responsibility of the sub-national governments and that a clearer delineation of these tasks and the division of responsibilities between the levels of government is needed. The policy of decentralisation was laid down in the Local Government Act of 1991 (as amended in 1992 and 1995), the Public Service Reform Programme and the Constitution of 1996. The last two have only vague references to decentralisation and sub-national governments. At this general level, there is a clear desire to support the decentralisation process. A draft Decentralisation Policy has been under preparation for several years, but remains to be adopted by the central government (as of April 1999). The absence of a clearly-articulated policy on how to proceed in order to realise decentralisation goals and the lack of clarity regarding the country's implementation strategy may suggest a lack of government commitment *vis-à-vis* decentralisation. This has resulted in confusing messages being forwarded to the sub-national governments by the different central government authorities. Compared to the other countries in the Study, the absence of a clear decentralisation strategy continues to be a major obstacle to Zambia's development.

The figure below summarises the major findings and conclusions of Chapters Three.

Policy and objectives (central government)	Findings	Comments	Recommendations
• Clear Decentralisation	• Lack of a clear	• The discussion on this	Short term:

Policy developed and implementation of the Public Sector Reform Programme	Decentralisation policy is a major constraint, both at central and local levels. The Public Sector Reform Programme is not fully implemented	seems not to move forward due to lack of consensus on key policy issues and lack of political will.	<ul style="list-style-type: none"> <li>Adopt a Decentralisation Policy and develop concrete implementation measures/strategies and action plans</li> </ul> <p><u>Short and medium term:</u></p> <ul style="list-style-type: none"> <li>Strengthen the institutional capacity at local level in order to carry out the present tasks better.</li> <li>Strengthen co-ordination of the decentralisation policy at central government level</li> </ul>
<ul style="list-style-type: none"> <li>Decentralisation of tasks and responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>The present functions surpass the financial capabilities of councils</li> <li>There are problems in co-ordination between the DDCC and the SNG councils</li> </ul>	<ul style="list-style-type: none"> <li>This is a general problem in many of the research countries</li> </ul>	<p><u>Short run:</u></p> <ul style="list-style-type: none"> <li>Address the unfunded mandates and strengthen the system of financing SNG tasks</li> <li>Investigate the relation between DDCC and SNGs in order to strengthen the SNG co-ordination function</li> </ul>
<ul style="list-style-type: none"> <li>Clear division of tasks and responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Many cases of overlapping functions amongst the various ministries</li> </ul>	<ul style="list-style-type: none"> <li>The parallel structure of deconcentration and decentralisation, as well as the limited involvement of the councils in donor activities, has worsened the situation</li> </ul>	<p><u>Short term:</u></p> <ul style="list-style-type: none"> <li>Agree on a clearer division of responsibilities at central level</li> </ul> <p><u>Medium term:</u></p> <ul style="list-style-type: none"> <li>More involvement of SNG in the contact with donors</li> </ul>

CG= Central Government, DDCC= District Development Co-ordination Committees, SNG= sub-national governments

#### ***Sub-National Finances in Zambia (Chapter Four)***

The Local Government Act 1991 (as amended in 1992 and 1995) gives a number of opportunities for sub-national governments to adjust their revenues to their expenditure needs. In addition, central government's stipulated policy is to facilitate cost-recovery and self-financing of sub-national expenses. In reality, the analysis has revealed a number of problems at the sub-national level in the areas of revenue and expenditure.

The financial affairs of sub-national governments have suffered a number of blows in recent years. These include: 1) a reduction in state grants, 2) an increasing lack of clarity in the mechanism for distribution of grants, 3) central government-initiated sale of their major assets (houses and communal properties), 4) a reduction of property taxes, 5) a reduction of user charges and fees, 6) time-consuming approval procedure for rates and charges, 7) old values for property evaluation and 8) very low level of personal levy, based on outdated figures.

An analysis of expenditure shows that the major constraints facing the sub-national governments are: 1) time consuming and unclear approval procedures for the SNG budgets, 2) legislated 'interference' from central government in the budgeting process, 3) an inappropriate distribution between salary and non-salary expenses, and 4) a disproportionate share of the expenditure allocated and/or utilised for general administration.

These findings confirm the urgent need for major reforms in local government finance, focusing principally on the total composition of revenue and expenditure but also the procedure and relationship between the central and sub-national governments.

The table below summarises the main findings and conclusions in Chapter Four.

Policy and objectives (central government)	Findings	Comments	Recommendations
<ul style="list-style-type: none"> <li>SNGs should, as far as possible, be self-financing</li> </ul>	<ul style="list-style-type: none"> <li>The SNG revenue and expenditure have declined in real terms from 1994-97 and constitute an even lower share of the public expenditure and GDP (from 1% to 0.9% and from 1% to 0.5%, respectively).</li> <li>There is a large outstanding debt to creditors, due to unpaid bills</li> <li>Recurrent expenditure constitutes more than 90% of total expenditure</li> <li>The capital investments where the SNGs are involved are very few and insignificant</li> <li>Non-productive areas (in terms of ISP) constitute the largest part of the SNG expenditure</li> <li>Wages constitute more than 60% of total expenses</li> <li>Transfers from CG are almost non-existent and unstable (the transfers constitute only 2.8% of the total SNG revenue in 1997 compared to 6.8% in 1994).</li> <li>The SNGs are assigned a number of revenue sources, but the control from the CG and ineffectiveness in the tax and user charge administration reduces the yield.</li> <li>Local borrowing is negligible</li> </ul>	<ul style="list-style-type: none"> <li>The CG objective is generally accepted among financial specialists, but transfers may serve a number of purposes, e.g. equalisation between strong and weaker SNGs, compensation for new tasks, etc. Excessive dependency on transfers, on other hand, weakens the SNGs' accountability and efficiency. Accountability of SNGs for ISP would be promoted through a closer link between the benefits of local public services and responsibility for their costs.</li> <li>The reduction of the state transfers (e.g. grants and shared taxes) has not been followed by sufficient possibilities for the SNGs to enhance and decide on their own revenues, i.e. user charges, tax revenues (especially property taxes and personal levies), which have been controlled by the CG.</li> <li>The SNG expenditures in Zambia constitutes, in international comparison, a rather low proportion of the GDP: 0.5% compared to 9.1%, average of 33 countries (1), and public expenses: 3% compared to 11% (cf. Chapter 2, average for 22 countries)</li> <li>The user charges constitute a large share of the SNG revenue in Zambia compared to other countries due to the low CG transfers and the problems in taxation in recent years.</li> <li>The expenses of general administration and salaries are comparably high.</li> </ul>	<p>The system of local government finance should undergo a comprehensive and phased reform process. The main elements should be:</p> <p><u>Short term:</u></p> <ul style="list-style-type: none"> <li>Any transfer of new tasks should be accompanied by the allocation of finance</li> <li><i>Analysis</i> of the future transfer system should be initiated</li> <li>An <i>investigation</i> into the Rating Act in order to reduce exemptions should be initiated</li> </ul> <p><u>Medium term:</u></p> <ul style="list-style-type: none"> <li>Unfunded mandates should be addressed</li> <li>The CG transfers system should be reformed in order to secure stable, objective and timely transfers of resources to SNG. The MoF should issue clear guidelines for this</li> <li>The system of personal levying should be reformed, especially the min./max. ceilings</li> <li>Various semi-public credit institutions/ or inter-municipal borrowing arrangements should be sought and linked to the establishment of capacity building at SNG level</li> </ul> <p><u>Long term:</u></p> <ul style="list-style-type: none"> <li>The existing tax potential should be utilised and new types of local taxes investigated.</li> </ul>
Cost recovery of most of the public services	<ul style="list-style-type: none"> <li>User charges are the most important SNG revenue source</li> <li>The CG control of the user charges has had a negative impact on cost recovery</li> <li>There is a vicious circle where citizens will only pay if the service level is increased, and this cannot be increased before the revenues are enhanced</li> </ul>	<ul style="list-style-type: none"> <li>There is a need for a reform of the system of user charges, including development of procedures for collection, and a reform of the competence for decision-making regarding the level of charges, etc.</li> </ul>	<p><u>Short term</u></p> <ul style="list-style-type: none"> <li>The interference of CG should be reduced</li> <li>The tariffs should be adjusted to at least cover the inflation rate</li> </ul> <p><u>Medium term</u></p> <ul style="list-style-type: none"> <li>A calculation of the cost - including current cost, preventative maintenance, repair and depreciation - should be made. Tariffs should also be adjusted to inflation and be closely related</li> </ul>

	<ul style="list-style-type: none"> <li>There is a clear lack of procedure for the calculation of user charges and fees</li> <li>The property taxes are based on outdated values</li> </ul>		<p>to the use of services</p> <p><u>Long term:</u></p> <ul style="list-style-type: none"> <li>User charges should cover 100% of the costs for certain areas of ISP, starting with water, electricity and similar services. Fee differentiation or special support for weak income groups, unable to pay in full, incl. support schemes for the poor, should be introduced</li> </ul>
SNGs administer tax collection and finance in an efficient manner	<p><u>Administration:</u></p> <ul style="list-style-type: none"> <li>The SNG tax collection is inefficient, and a great potential exists</li> <li>Capacity within the SNG finance departments is low</li> <li>The rates are not based on up-to-date values</li> <li>The budgeting and accounting system and budget procedures are very weak in SNG</li> </ul>	<ul style="list-style-type: none"> <li>The extra revenue from the updating of property assessment is evaluated to be much higher than the extra administrative costs, but the problem in the short run is liquidity, as the revenue is only seen as medium term income</li> </ul>	<p><u>Short term:</u></p> <ul style="list-style-type: none"> <li>Methods to develop more efficient revenue collection systems should be analysed. The SNG should be encouraged to collect according to the potential revenues</li> <li>The CG should promote a current update of the property valuation</li> <li>New regulations on budgeting and accounting should be initiated by the CG</li> </ul> <p><u>Medium term:</u></p> <ul style="list-style-type: none"> <li>Efficient billing systems for handling the problem of defaulters should be installed</li> <li>A full scale reform of the SNG financial and budgeting system, including accounting, should be launched</li> <li>Professional independent auditors should be utilised</li> </ul>
Co-operation between central and sub-national governments	<ul style="list-style-type: none"> <li>The CG has created a number of disincentives for SNGs revenue generation, e.g. forced property sale, reduction of rates, time-consuming budget approval procedures and the control/reduction of user charges</li> <li>Transfers to SNGs are inappropriate in terms of procedure, division criteria, timing and information flow</li> </ul>		<p><u>Short term:</u></p> <ul style="list-style-type: none"> <li>SNGs should be allowed to participate more actively in the framing of the rules for the transfers of funds</li> <li>The information flow on SNG finance between the CG and SNGs should be strengthened</li> </ul> <p><u>Medium term:</u></p> <ul style="list-style-type: none"> <li>A more formal system of budget co-operation between CG and SNGs should be established</li> </ul>

(1) Council of Europe, "Local Government Finance, No. 61. Strassbourg 1997.

### ***Infrastructure and Service Provision (Chapter 5)***

Most of the important ISP functions have been assigned to the SNG level, especially in the Local Government Act of 1991 (with later amendments). The central government's policy is to support SNGs within the field of ISP and to strengthen the capacity for the maintenance and development of infrastructure and service provision. An element of this is to delegate responsibilities to SNGs. In addition, central government wishes to involve more private service providers in this activity.

The Study shows that many of ISP functions have been transferred to SNGs. There are two major constraints on their abilities to perform these functions. Firstly, the sub-national governments operate within an institutional environment that places limitations on their autonomy to set user charges and fees; is characterised by inadequate co-ordination among key ministries; and that lacks a strategy for key sector areas,

including cost recovery strategies. Secondly, the research shows that SNGs currently have weak administrative capacities to carry out crucial ISP functions. The result has been a very unsatisfactory level of the population provided with basic infrastructure and services, e.g. water, sanitation, solid waste management, health care and road networks. In general, the existing services cover approximately 50% of the present needs for ISP.

The table below summarises the main findings and conclusions in Chapter Five.

Policy and objectives (central government)	Findings	Comments	Recommendations
<ul style="list-style-type: none"> <li>To assign most of the ISP tasks to SNGs</li> </ul>	<ul style="list-style-type: none"> <li>SNGs are not directly involved in most new infrastructure projects carried out between the CG and the donors, but are responsible for the subsequent recurrent costs</li> <li>The sample local authorities have not funded any major new infrastructure projects in recent years</li> <li>The infrastructure is in a serious state of disrepair</li> <li>SNG's possibilities of financing ISP has worsened in recent years, cf. Chapter 4</li> <li>None of the sample SNGs has been able to cover more than 60% of the needs within all areas of ISP</li> </ul>	<ul style="list-style-type: none"> <li>The assignment of most of the ISP to SNGs is also in accordance with the principle of subsidiarity, cf. Chapter 2, but a number of criteria should be applied and conditions fulfilled, e.g. proximity to the beneficiaries, efficiency in co-ordination and cost recovery, economies of scale, cost/ benefit spill overs, etc.</li> <li>The lack of involvement creates confusion and disincentives for SNGs</li> <li>SNGs in Zambia take care of more or less the same ISP as in the other countries in the study, although education is a sole CG task in Zambia</li> <li>The population coverage of the most urgent ISP areas (water, solid waste, health care, sewerage, roads and transport systems) is only approx. 40-60%</li> </ul>	<p><u>Short term:</u></p> <ul style="list-style-type: none"> <li>A stronger co-ordination between SNGs and CG should be initiated in all areas of ISP</li> <li>Local preferences, such as affordability and the ability to pay by participation in SNGs decision making, should be considered when planning ISP</li> <li>The SNGs should be more involved in the priorities and the management of major infrastructure investments and in the co-ordination between the CG and the donors.</li> </ul> <p><u>Medium term:</u></p> <ul style="list-style-type: none"> <li>The division of responsibilities for ISP among the SNGs and the CG should be more clear</li> <li>Public awareness campaigns, with the aim of maintaining the ISP facilities, should be launched</li> <li>A comprehensive national strategy and implementation plan on ISP development and maintenance should be prepared</li> </ul>
<ul style="list-style-type: none"> <li>To involve the private sector in ISP</li> </ul>	<ul style="list-style-type: none"> <li>The private sector has been involved in some infrastructure projects, e.g. in the water sector, but generally the participation has been small due to weak involvement incentives</li> </ul>	<ul style="list-style-type: none"> <li>The legal possibilities for private sector involvement in ISP at the SNG level are rather liberal and no major constraints exist concerning this</li> </ul>	<p><u>Medium term:</u></p> <ul style="list-style-type: none"> <li>Development of a more attractive environment for private investor involvement in ISP</li> <li>Support the SNGs in the development of strategies and methods for dealing with private investors</li> <li>Address the policy of CG interference in tariff setting</li> </ul>
<ul style="list-style-type: none"> <li>To secure a sustainable finance for ISP, including cost recovery and liberalisation of tariff setting</li> </ul>	<ul style="list-style-type: none"> <li>Household payment possibilities have decreased in recent years</li> <li>The poor pay a relatively greater share of the costs</li> <li>The level of payment default is high (more than 50%)</li> <li>The budget and accounting system is inappropriate to support the calculations of tariffs</li> <li>The tariff levels are</li> </ul>	<ul style="list-style-type: none"> <li>The control of tariff setting and the lack of commitment among councillors to make unpopular decisions are among the major constraints for this objective.</li> </ul>	<p><u>Short term:</u></p> <ul style="list-style-type: none"> <li>The cost recovery of ISP should be systematically regulated to counteract the impact of inflation.</li> <li>CG involvement in tariff setting should be avoided</li> </ul> <p><u>Medium term:</u></p> <ul style="list-style-type: none"> <li>A budget and accounting system which take cost recovery needs into considerations should be developed</li> </ul>

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### ***The Regulatory Framework (Chapter Six)***

The basic regulatory framework of SNGs was laid down in the Local Government Act 1991 (with amendments). In addition, the Public Sector Reform Programme (PSRP) addresses, to some extent, objectives for strengthening local government. As earlier stated, the country's decentralisation policy is still underway. Although the legal framework has established the foundation for a relationship between central and local governments, the analysis shows many examples within the present legal framework, and especially in the practises of the key ministries, that have a negative impact on the performance of sub-national authorities in ISP.

The table below summarises the main findings and conclusions in Chapter 6.

Policy and objectives (central government)	Findings	Comments	Recommendations
<ul style="list-style-type: none"> <li>Clear delineation of power to the SNG level</li> </ul>	<ul style="list-style-type: none"> <li>The lack of the release of the new Decentralisation Policy hampers incentives at local level and contributes to the lack of co-ordination at CG level</li> </ul>		<u>Short term:</u> <ul style="list-style-type: none"> <li>Key ministries should co-ordinate their initiatives better at CG level</li> <li>The links between the DDCC and the SNG councils should be more clearly defined.</li> </ul>
<ul style="list-style-type: none"> <li>Empowering of the SNGs to mobilise resources</li> </ul>	<ul style="list-style-type: none"> <li>A number of legal initiatives have contradicted this objective, e.g. <ul style="list-style-type: none"> <li>The Rating act from 1997, with its many exemptions</li> <li>Forced sale of SNG houses at artificially low prices in 1995</li> <li>Fixing of low level of personal levy</li> <li>The practise of non-payment of property taxes for CG buildings</li> <li>The transfer of the Road funds</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>SNGs have a considerable degree of autonomy regarding expenditure (except for the slow budget approval process), but the revenue has been the major source of problems, including the draining of nearly all the major sources of SNG finance over the last 5 years.</li> </ul>	<u>Short term:</u> <ul style="list-style-type: none"> <li>CG interference in the budget procedures and in the decisions on various revenues should be avoided</li> <li>The budget procedure should be reformed in order to outline clear guidelines on how a budget should be developed, instead of using approval procedures</li> </ul> <u>Medium term:</u> <ul style="list-style-type: none"> <li>New financial regulations and management guidelines should be developed, including rules for budgeting, accounting and auditing</li> <li>The system of CG transfers should be regulated by law</li> </ul>
<ul style="list-style-type: none"> <li>Secure the productivity of land</li> </ul>	<ul style="list-style-type: none"> <li>The present legislation is a good first step in the direction of securing clear tenure/ownership of land</li> <li>There are still a number of administrative bottlenecks in the provision of tenure and ownership</li> </ul>	<ul style="list-style-type: none"> <li>This is a problem in many African countries and is a major constraint on the access to finance/borrowing regarding investment in production of agriculture products</li> </ul>	<u>Short term:</u> <ul style="list-style-type: none"> <li>CG should address the constraints in the system of land management and facilitate ownership/long term tenure and address the updating of cadastral maps in order to secure better access to borrowing to augment investments</li> </ul>

### ***Institutional Framework (Chapter Seven)***

Chapter Seven reviews the SNG's institutional environment and their capacity to administer and carry out ISP in an efficient way. The central government's key objectives are outlined in the Public Service Reform Programme (PSRP), which seeks

to develop an efficient public service with management and implementation capacities at the central and sub-national levels.

The analysis shows a number of weaknesses and problems in the relationship between the different levels of decision-making and within the SNGs themselves, e.g. between councillors and chief officers. The general conclusion is that the present administrative capacity at the SNG level is quite weak, considering the important tasks for which they are responsible. The research, with reference to the six sample SNGs, shows that there is a severe lack of training and expertise in key positions and organisational problems within the SNGs. The table below summarises the main findings and conclusions in Chapter Seven

Policy and objectives (central government)	Findings	Comments	Recommendations
<p>The general policy is dealt with in the PSRP programme with its focus on:</p> <ul style="list-style-type: none"> <li>Improvement of the administrative capacity</li> <li>Efficient and responsive public service</li> <li>Efficient structuring of the organisation</li> <li>Decentralisation</li> <li>Human resource development</li> </ul>	<ul style="list-style-type: none"> <li>In nearly all the sample SNGs, the analysis shows a contentious relationship between councillors and chief officers</li> <li>Overstaffing at the lower levels and lack of qualified personnel at higher levels are problems</li> <li>Weak capacity to attract and retain qualified personnel</li> <li>There is a lack of planning within the SNGs and lack of information sharing between all government levels</li> <li>Weak capacity in financing and budgeting</li> <li>Physical planning is reactive instead of proactive</li> </ul>	<ul style="list-style-type: none"> <li>Due to the weak administrative capacity and the relationship between the councillors and the administration, it is necessary to focus on increasing the capacity at both levels: first and foremost through a strong emphasis on training</li> <li>There is an unbalanced distribution of the staff, their skills and their tasks in all the SNGs in Zambia. Retrenchment and adjustment is necessary, both in the short and medium term.</li> <li>The problem of overstaffing appears to be more severe in Zambia than in some of the other research countries, due to large number of political appointments in the past.</li> </ul>	<p><u>Short term</u></p> <ul style="list-style-type: none"> <li>The competencies of the councillors and the chief officers should be enhanced</li> <li>Training of the newly elected councillors should have a high priority</li> <li>SNG budgeting and planning systems should be supported and integrated.</li> </ul> <p><u>Short/Medium term:</u></p> <ul style="list-style-type: none"> <li>The retrenchment of staff should be a part of the CG reform programme and be supported by the CG and the donors</li> <li>The possibilities to introduce stronger incentives for higher ranking staff should be investigated</li> <li>The SNG decision-making and administration should be developed along the lines of 'Good Governance' by community involvement measures</li> <li>Training at all levels should be supported.</li> </ul> <p><u>Medium / long term</u></p> <ul style="list-style-type: none"> <li>A supportive and effective information system should be installed to provide accurate, reliable and timely information for performance measurement and management purposes.</li> </ul>
<ul style="list-style-type: none"> <li>The establishment of a competent SNG policy and control of the hiring and firing of staff</li> </ul>	<ul style="list-style-type: none"> <li>The CG interferes in the dismissal and hiring of senior key staff, in many instances</li> </ul>	<ul style="list-style-type: none"> <li>Despite the objectives of the CG to devolve power in this area, it has, for different reasons, involved itself in this process</li> </ul>	<p><u>Short term:</u></p> <ul style="list-style-type: none"> <li>The appointment and promoting of accounting and financial specialists should be controlled by SNGs</li> </ul>
<ul style="list-style-type: none"> <li>Good relationship between CG and SNGs</li> </ul>	<ul style="list-style-type: none"> <li>The relationship is based on a top-down model</li> <li>Planning within the councils is controlled by external actors</li> <li>The CG has abolished a number of councils due to different reasons</li> </ul>	<ul style="list-style-type: none"> <li>This gives the SNGs disincentives to innovate. Examples are the major decisions on the infrastructure and the budget for the coming year</li> </ul>	<ul style="list-style-type: none"> <li>A closer and regular dialogue between the CG and the SNGs should be emphasised, e.g. within the budget area</li> <li>The policy for CG's abolishment of councils and the dismissal of chief executives should be clarified and should be reserved exclusively for exceptional cases, e.g. in relation to clearly illegal actions</li> </ul>

### Overview Table on Fiscal Decentralisation

Country	SNG tax as % of GDP (1)	Local government disbursement as % of GDP (2)	Local gov. expenditure share of CG expenditure (%) (3)	Local government income tax as % of total local government taxes
Zambia	0.2	0.5	3.0	16
Senegal	0.5	1.0	6.3	NA
32 Countries (3) (4)			23.1	
OECD	4.5	11.1		41 (4)
Greece	0.5	3.8	5.6	
USA (1)	3.7	9.5		6
France	4.4	7.9	27	15
Germany	2.9	5.8	28.7	80
Japan	6.9	12.8		53
Denmark	16.1	24.4	42.3	93

OECD: Unweighted average.

(1) Figures from Appendix No. 1 (not all OECD countries included but based on 28 countries)

(2) Figures from Table 2.3 in Chapter 2.

(3) Figures for Europe based on Table 2.3, Chapter 2. 32 countries unweighted average.

(4) Figures from 27 OECD countries, cf. Table 2.9 in Chapter 2.

(5) Figures from Zambia and Senegal are from the Study, 1997.

### Key Figures for the Sample Sub-National Governments:

Sample sub-national government	A) Staff in the SNG B) Per 1000 inhabitant	Size (approx.)	A) Total revenue B) Revenue per capita (1000 K), 1997	Tax revenue as share of total revenue, 1997 (%) (2)	User charges as share of total revenue, 1997 (%) (2)	Transfers as share of total revenues, 1997 (%) (2)	Capital expenses as share of total expenses	Wages as share of total expenditure (1997)
Lusaka	A) 2700 B) 1.3	1,016,000	A) 11,198,185 B) 11	31	56	1	5	58
Ndola	A) 1925 B) 4.9	393,000	A) 4,777,393 B) 12	45	46	9	6	63
Kalulushi		180,000	A) 1,139,775 B) 6	39	34	11	2	52
Livingstone	A) 823 B) 6.9	120,000	A) 1,978,358 B) 16.5	34	47	0	0	52
Petauke	A) 128 B) 0.5	249,542	A) 344,700 B) 1.5	4	34	12	0	38
Chibombo	A) 87 B) 22	4,058	A) 126,038 B) 31	21	28	23	0	59
Zambia Total figures		(1) 10,096,282	A) 38,829,000 B) 3,8	21	23	3	5	60

1) Figures based on sources in the CSO, 1998 estimates. The last census was made in 1990, i.e. the population figures are only estimates + based on interviews from the sample SNGs, i.e. approx. figures.

2) Only the three main revenue types: tax revenue, user charges and transfers are shown here.



## CHAPTER TWO

### DECENTRALISATION OF THE PUBLIC SECTOR - OBJECTIVES, METHODS, AND EXPERIENCES

#### 2.1 Introduction

The development of democracy and decentralisation at the local level has increasingly captured international interest, especially developing countries and Eastern European countries in transition. The main objective of this development is to improve public sector operations and thus contribute to the quality of life of citizens.

Decentralisation has been an important method of tackling many of the challenges of the nation states. These include increasing demands on public services, demographic pressure (more elderly and young people) and growing public expectations regarding the quality of services.

Decentralisation is characterised by public accountability, as the local self-government is subject to democratic control. Decentralisation allows citizens to participate in and influence the decisions made by the councils of local authorities. Decentralisation thus forms an important component of the development of democracy, as reflected in the *European Charter of Local Self-Government* adopted by the Council of Europe in 1985. The basis for decentralising public tasks and financing consists of several components, of which the following are of major importance:

- Local self-government denotes the rights and the abilities of local authorities, within the limits of law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population (art. 3.1.)
- Public responsibilities shall generally be exercised, in preference, by the authorities, which are closest to the citizens. Allocation of responsibility to another authority should weight up the extent and nature of the task and the requirements of efficiency and economy (art. 4.3.)
- Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers (art. 9.1) <sup>10</sup>
- At least a part of their own resources should be derived from local taxes and charges of which, within the limits of the statute, the local authorities shall have the power to determine the rate <sup>11</sup>

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<sup>10</sup> European Charter of Local Self-Government adopted by the Council of Europe 1985. "Own" resources means the "possibility freely to dispose of".

Decentralisation to lower levels of government is a complex phenomenon. It involves issues of finance, administration, control, regulation, reporting and accountability – all comprising part of the interrelationship between levels of government and with semi-public and private actors as well. The complex system of intergovernmental relations comprises the term **governance**, where “*good governance*” implies a focus on accountability for performance and results, i.e. the provision of services to the citizens in an efficient, effective and responsive manner. The shift from jurisdictional and procedural concerns to “good governance” marks a shift in paradigm that is of vital importance for the functioning of the public sector.

The importance of decentralisation can further be seen from the development in the democratic perspective of the European Union, where the role of local authorities is being strengthened. Recent amendments to the Treaty of the European Union state that the Union is one “in which decisions are taken as closely as possible to the citizens” – the so-called principle of “**subsidiarity**”. This principle has also been the main strategy in other parts of the world and a guiding principle for many countries in development and transition.

Local and regional authorities in this way play a central role by having a close relationship to citizens and have greater influence on how democracy, efficiency and transparency develop. This ensures that the provision of public services is most responsive to local needs and conditions.

Most public services to households and enterprises are generally most efficiently provided by local government. Efficient decisions must be based on good information, and it can be very difficult at the central level to secure necessary information about local matters. Local government service provision also makes it easier to adjust the service level and quality to meet the expectations and needs of the citizens within a given area.<sup>12</sup>

Fiscal decentralisation is generally accepted as the way to enhance political, institutional and economic development. The economic benefits from decentralisation are difficult to quantify, but evidence in Denmark, Norway and other countries shows that there is a U-shaped relationship between average expenditure for administration and the size of the authority. This suggests that both very small and very large units are costly compared to those of medium size.<sup>13</sup> Evidence shows that local government in most countries with less than 5,000 inhabitants will generally be too costly to provide services at the local level.<sup>14</sup>

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<sup>11</sup> Alain Decamp: Working group on “The European Charter of Local Self-Government, Finances of the Local Authorities” (implementation of Article 9 of the Charter), Strassbourg, Oct. 21, 1997.

<sup>12</sup> The argument for more efficient operation of the public sector was mentioned in the debates in the Nordic countries when local governments were legislated in the mid 19<sup>th</sup> century.

<sup>13</sup> Cf. e.g. in Kenneth Davey and Gábor Péteri: “Local Government Finance: Options for Reform”, Nagykovácsi, 1998, p. 19 ff.

<sup>14</sup> Kenneth Davey: “Political and Fiscal Decentralisation-Reforms in the Baltic Sea States – Proceedings of the Regional FDI Conference”, Section on: Public Administration in Central and Eastern Europe, November 24-25, 1999 Copenhagen.

Parallel to this development, the international community, especially donors, increasingly demand democratic progress and decentralisation by the recipients of aid, and of applicants wishing to join their clubs. Crucial in the development of a democratic society is the establishment of local authorities with elected councils, functions to perform and financial backing.

This Chapter describes trends in the development of the modern, decentralised public sector and some of the major *indicators* of decentralisation. The presentation primarily focuses on and trends in the OECD countries, but also provides a comparison to the situation in some of the Sub-Saharan countries involved in the research. This overview of international decentralisation experience, particularly within the field of local government finance, allows the results of the country research to be seen in a more global context.

Despite common decentralisation objectives among many countries and within international fora, the experiences have shown that the practical implementation of decentralisation and the time span required for it vary greatly from one country to another.<sup>15</sup>

In some of the OECD countries, the historic development took the form of federations of states with independent legislative powers. This occurred because people, for historical reasons, were unwilling to accept central authority, or because cultural and other differences made it impossible for them to live together in a unitary state<sup>16</sup>. The federal constitutions guarantee the rights of the member states to perform specific functions, and it secures their methods of financing. The federal countries often have strong anti-central attitudes, but decentralisation beyond the intermediate state level is left for the states to decide upon, and decentralisation to the local level is not impressive.

In the unitary countries, decentralisation was historically initiated by a centre and was driven by reasons of democracy and/or of efficiency.

Unitary and federal decentralisation policies are very different issues. Decentralisation in the federal sense is usually very clear and absolute, but this is rarely the case when unitary countries delegate functions.

The parliaments of unitary countries rarely decide to decentralise all of the functions suited for delegation to local authorities. Often, decentralisation has been viewed as being a more effective way to deliver centrally delegated public services than would have been the case with central provision. Countries torn by internal religious, ethnic, linguistic or other tensions often need to apply a federal model with an independent regional tier of government. Countries organised as unitary states may have internal

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<sup>15</sup> The information about particular countries relates to a recent year. It has not been possible to check if reforms that are more recent have changed the situation.

<sup>16</sup> In the case of Germany, the allied forces imposed the federal solution after the war in order to prevent the re-emergence of a strong German state.

divisions, and they may benefit from including features from the federal model in the organisation of local government. In both cases, to gain the benefits from efficiency and democracy, decentralisation to the lowest level should not be neglected. The present study on decentralisation in African countries focuses on decentralisation to the lowest level, the towns and municipalities (and in some countries districts/regions), and not on federal solutions.

## **2.2 The Global Trend of Growth of the Public Sector, Financial Constraints and Conditions for Decentralisation**

The role of the public sector as supplier of services and welfare benefits has constantly increased since the age of industrialisation, as witnessed by the development of tax ratios over the years. OECD records show that tax ratios (tax revenues as percentages of GDP) have increased since 1965 by half: from 26% to 38% (see Table 2.1).

**Table 2.1: Tax Ratios as per cent of GDP 1965-94, OECD Countries**

Ratios in per cent	1965	1970	1975	1980	1985	1990	1994
OECD-countries	26.3	29.5	32.5	34.1	35.9	37.0	38.4

Source: Revenue Statistics. OECD. 1997.

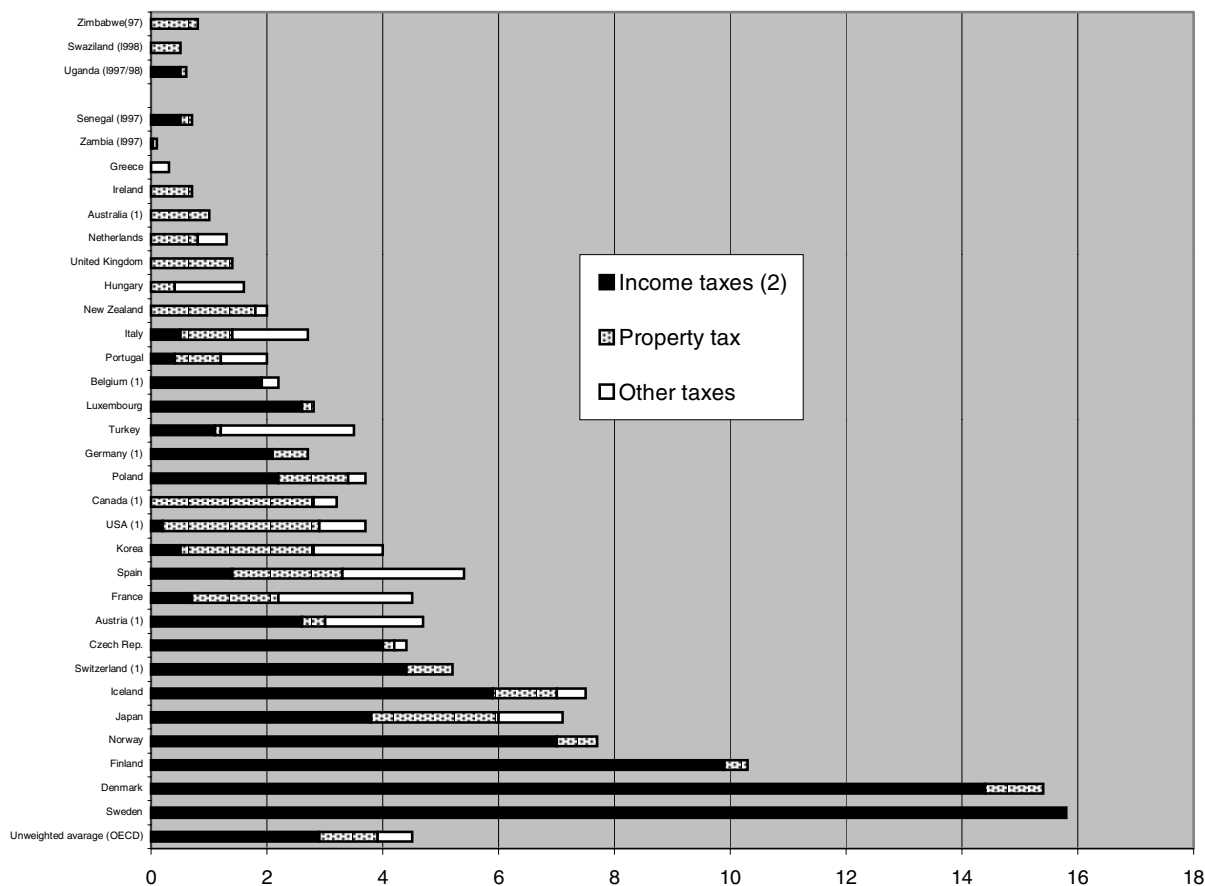
In this three-decade period, most countries have experienced a steady increase in demand for public services. The political willingness to meet this demand has prevailed within the concept of the welfare state, the result being a substantial increase in the provision of services. Among the most important reasons for the increased demand for institutionalised welfare services has been the trend toward an increasing number of elderly people in many countries and the longer duration of education combined with increased employment of women outside the home. However, there is no single, generally accepted economic explanation for this growth in public services. Income elastic demand, new knowledge and technology, imperfect organisation and decision making all have been shown to contribute.

One reason why it has been so complicated to explain the growth of the public sector is that it is not a direct result of the working of economic forces; rather, it is a product of political decisions. Any service may be public if it is politically decided that it is to be tax financed, supplied free of charges or subsidised. Therefore, the concept of public services is not given and not uniform between countries.

The importance of the *local government sector* is shown in Table 2.2, which indicates local government tax as a share of GDP (see also Appendix No. 1 to Chapter 2):

Table 2.2

**Local tax revenues as per cent of GDP. 1997 for OECD countries and 1997/98 for African countries**



Source: OECD, Revenue Statistics 1965-1998, OECD 1999. African countries: Data from the present Study on Fiscal Decentralisation and Sub-National Finance, collected from various sources (unofficial data). Zambia, 1997 figures, Source: Central Statistical Office. Swaziland 1998, Ghana 1996, Senegal 1997, Uganda 1997-98, Zimbabwe 1997.

The tax financing of services in any country is a political choice, and it is a political responsibility to ensure that taxpayers are only burdened with the cost of such services, and only for very good reasons. Welfare services and transfer levels for redistribution can be unrealistic when considering the economic capacity of the country. The result then becomes high taxes or inflation followed by low economic growth and a decline in available resources.

Decentralisation is sometimes seen as one way to create greater accountability in the public sector, e.g. a way to keep spending within the capacity to tax. However, experience from a number of countries shows that decentralisation may also take place under conditions of general financial constraints, where central government transfers

responsibilities for public service provision to lower levels of government without a corresponding transfer of financial means.

In many cases, there has been a tendency that the financing was not decentralised with the public service functions. In the post World War II decades, expenditure on public welfare services grew quickly in many countries, resulting in so-called “vertical imbalances” and the need for central government grants. The same process is now being repeated in several of the countries in transition in Eastern Europe, Asia and Africa. It is noteworthy that decentralisation in some Latin American countries seems to follow a reverse pattern: to guarantee decentralisation revenue before decentralising responsibilities.

Decentralisation can be a less painful way in the short-term for central governments to overcome national budget constraints and unbalances.<sup>17</sup> It can be justified to the extent that efficiency gains are generated by decentralisation of responsibilities. This again requires lower levels of government to be furnished with some degree of managerial and/or financial discretionary power and autonomy in order to be able to compensate by innovation, flexibility and adaptability to local needs and conditions. In this way, decentralisation can be seen as a major option for promoting “good governance”.

The size and organisational structure of the public sector in any country is very much a result of political choice. However, data suggest that it is most likely that the public sector’s role will increase for countries in early stages of development.

Therefore, the role of the public sector will remain one of the most important political issues in any country. The central and local governments’ ability to collect taxes is crucial to finance public services. The public sector of developing countries can be expected to grow with economic development. Developing countries must prepare their institutions so that this development is efficient, government spending is controlled and resources are mobilised. Decentralisation is one way to mobilise needed resources and improve performance.

The benefits of public expenditures have to be carefully weighted against their costs. Poor management and wasteful misallocation in the public sector can easily result in stagnation of the whole economy, popular mistrust of politicians and increased levels of tax non-payment. These risks can be minimized under certain conditions by decentralising the public sector and thus mobilising local populations to scrutinize and control the level of expenditure and taxes.

An inefficient public sector will not become efficient by decentralisation alone. First, problems of control/supervision and of local organizational and administrative capability must be solved. The need for justice must be satisfied, legal rights

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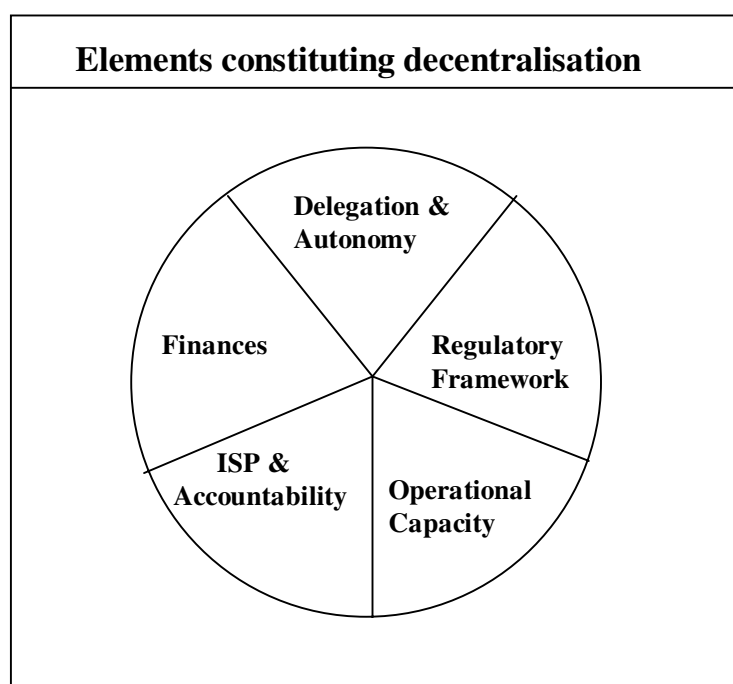
<sup>17</sup>. Unfunded mandates may also preclude the implementation of legislation and new tasks and jeopardise cordial central/local government relations. . This has especially been the case in a number of Central and Eastern European countries (in transition), where many tasks have been transferred without sufficient finance, cf. Ricard M. Bird, Robert D. Ebel, and Christine L. Wallish (editors), “Decentralisation of the Socialist States, Intergovernmental Finance in Transition Economies, International Bank of Reconstruction and Development, Regional and Sectoral Studies”, 1995.

guaranteed and democratic controls established<sup>18</sup>. Related efficient administrative systems such as budget and accounting systems, indicators for services provision/performance, and audit and tax systems should be developed as well. Without these conditions, decentralisation of the public sector cannot serve its purpose.

## 2.3 Indicators of the Decentralisation of the Public Sector

The major elements constituting decentralisation of the public sector are shown in the figure below.

**Figure with Indicators**



ISP = Infrastructure and Service

### 2.3.1 Delegation, Responsibility and Autonomy

Some of the necessary indicators of decentralisation are the relative sizes of local government revenues and expenditures.

#### *2.3.1.1 Decentralised public purchasing power by disbursements and actual local government consumption*

<sup>18</sup> These issues are central in the IBRD World development report 1997, which concludes (pg. 162) that "strengthening the rule of law must be a vital first step" For African development.

The extent of actual decentralisation is difficult to describe, but one of the first appropriate indicators is local government expenditure. An analysis of public expenditures shows that only four of the eighteen OECD countries allocate less than 7 per cent of GDP to local government (see the tables below).

**Table 2.3: Local Government Disbursements as per cent of GDP (1995)**

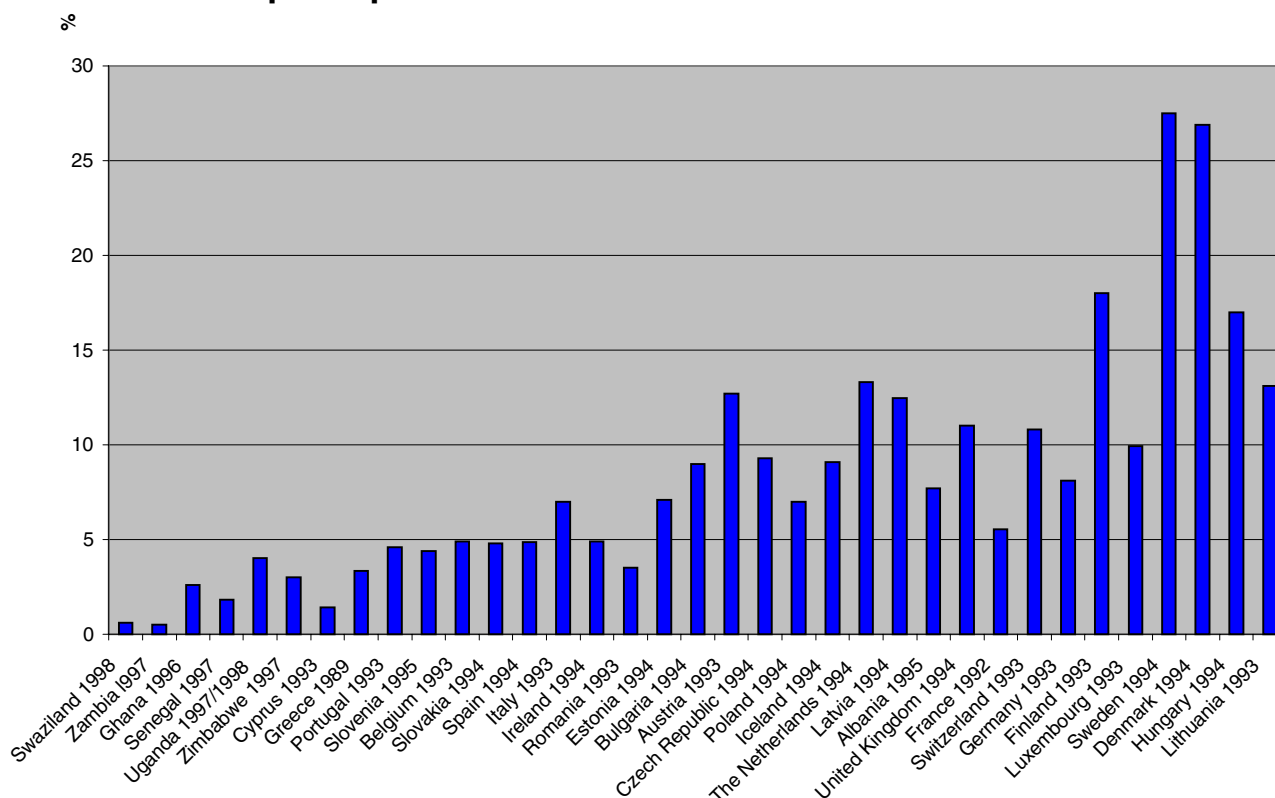
	Disbursements	Consumption
Zambia (1997)	0.5	
Senegal (1997)	1.8	
Ghana (1996)	2.6	
Uganda (97/98)	4.0	
Swaziland (1998)	0.6	
Zimbabwe (1997)	3.0	
<b>OECD-countries:</b>		
Australia	4.1	0.0
Austria	7.1	3.7
Belgium	7.0	4.4
Canada	11.2	8.9
Finland	18.4	14.4
Denmark	24.4	17.5
France	7.9	5.1
Greece 94	3.8	3.2
Germany	5.8	3.8
Iceland	7.7	5.3
Ireland 94	10.6	7.7
Italy	12.0	7.5
Japan	12.8	7.4
Korea	10.1	4.8
Netherlands	14.0	6.9
Norway	16.9	12.6
Portugal 93	3.9	2.9
Spain 94	9.8	6.2
Sweden	22.2	17.8
UK	10.1	7.3
US 93	13.7	9.5

*Source: The table is based on OECD National Accounts Statistics. The figures show net of fees and charges. The figures from the Sub-Saharan countries are of various sources and from the Study and should be treated with due caution. Zambia: Data from 1997, Source: Ministry of Finance. The concept of local government includes provinces and regions, but not the state level in federal countries. For Australia, the OECD figures have been adjusted to exclude state finances. Disbursements include: Transfers as well as service expenditure. For Denmark, agent-type transfers have been deducted from the OECD figures. Capital expenditure is not included. Consumption is local government salaries and purchases. The figures for the African countries are derived from the present research (different sources), and a direct comparison should be made with great caution. Figures for the African countries are drawn from the case studies on Fiscal Decentralisation and Sub-National Finance in Relation to Infrastructure and Service Provision and not from official figures. Senegal: 1997 figures based on extrapolation. Uganda 1997/98 figures and Swaziland 1997 figures.*

Table 2.4 below shows local government expenditure in relation to central government expenditure:

**Table 2.4: Local Government Expenditure in Relation to Central Government Expenditure**

### Municipal expenditure in relation to Gross Domestic Product



Council of Europe, "Local Finance in Europe", No. 61, Strasbourg, 1997. Only the municipal level of local governments. Figures from African countries were collected as a part of the study on Fiscal Decentralisation and Sub-National Finance, 1998-2000 (unofficial figures) and include all sub-national governments. 1) Figures from DK include expenditures, which are 100% reimbursed by the State.

Developing countries seem to have a lower local government share of the GDP and of total public expenditures. This tendency has been confirmed by the present study. An example is Zambia, where the local government expenditure only constituted approximately 3% of the total public expenditure in 1997.<sup>19</sup>

Such figures are, of course, only a first step in comparing the differences between countries. For example, tightly controlled countries, such as Japan, may rank higher than justified by the actual degree of decentralisation. In the Netherlands, the high figure for local government expenditure is very much due to decentralisation towards private non-profit organisations/associations and not to democratic local authorities.

<sup>19</sup> Data are from the Study on Fiscal Decentralisation and Sub-National Finance. The figures are based on data from the Ministry of Finance in Zambia.

This pattern is also seen in El Salvador, Bolivia, and a number of the research countries. It is clear that an analysis like this has to be supplemented by other indicators of autonomy as well.<sup>20</sup>

### 2.3.1.2 The decentralisation of tasks and responsibilities across levels of government

Local Government responsibilities for the provision of public services vary greatly from country to country. These responsibilities are in some countries decreed by the constitution, in others by separate legislation and in a few by a presidential decree. The responsibilities could be fully decentralized or they could be decentralised in some cases and shared among different levels of government in others. Furthermore, the distribution of responsibilities can be seen in close relation to the issue of the degree of autonomy concerning specific responsibilities. Information concerning distribution is not available in a systematic way for all OECD countries, and, accordingly, the table below only includes countries with available information.

**Table 2.5: Local Government Responsibilities<sup>21</sup>**

	Education	Health	Social Security & welfare	Housing	Community amenities	Recreational & cultural affairs	Economic services
<b>Uganda</b>	S	S	S	SG	SNG	SNG	SNG
<b>Senegal</b>	S	S	S	S	S	S	S
<b>Ghana</b>	CG	CG			S	S	S
<b>Swaziland</b>	CG	CG			CG/SNG	CG	CG
<b>Zambia</b>	CG	CG	S	S	SNG	NA	SNG/S
<b>Zimbabwe</b>	S	S	S	S	SNG	S	SNG
Latvia {1}	S	S	S	S	S	S	S

<sup>20</sup> One example of very controlled functions recorded as local expenditure is Japan, where functions delegated to local authorities until recently have been regarded as central expenditure disbursed by local authorities ("agency delegated functions"). Another example is Slesvig-Holstein, a German land, where decentralisation of the schools only means that the local authorities can build the schools. The Ministry strictly details everything taking place inside the schools. Chapters 6 and 7 explore these indicators further.

<sup>21</sup> The table shows where the **major** responsibilities are assigned. Within each category, some minor tasks may be carried out by another level. The following sources have been used to complete the table:  
<sup>2nd</sup> Questionnaire on the Responsibilities of Local Authorities" contributions from Country Experts to the Council of Europe's Working Group on "the European Charter of Local Self-Government"  
 "Regional and Local Government in the European Union" by the Committee of the Regions: Sub-Commission on Local and Regional Finances, February 1996.

"Strategy Development on Decentralizing Public Administration Structure", by VNG: Association of Netherlands Municipalities, 1996.

"Kap. 7: Opgavefordelingen i andre lande – Opgavekommissionen" by the Danish Minister of the Interior, October 1998.

"Managing Across Levels of Government", OECD Report 1997.

"The Reform of Inter-governmental Fiscal Relations in Developing and Emerging Market Economies" by Anwar Shah: The World Bank's Policy and Research Series no. 23, 1994.

"Nordic Local Government" by E. Albæk, L. Rose, L. Strömberg and K. Ståhlberg: The Association of Finnish Local Authorities, Helsinki 1996.

Austria {2}	S	S	S	SNG	S	S	S
Belgium {2}	SNG	S	S	SNG	SNG	S	S
Denmark {1,3,4}	S	SNG	SNG	SNG	SNG	S	S
Finland {1,3,4}	S	SNG	SNG	SNG	SNG	S	S
France {3,2}	S	S	S	SNG	SNG	S	SNG
Germany {2,5}	S	S	SNG	SNG	SNG	SNG	S
Iceland {1}	S	S	SNG	S	SNG	S	S
Ireland {2}	CG	CG	CG	SNG	SNG	S	S
Japan {5,6}	S	S	S	SNG	SNG	SNG	S
Netherlands {1,2}	S	S	S	SNG	SNG	S	S
Norway {3,7}	S	SNG	SNG	SNG	SNG	S	S
Portugal {1,2}	S	S	S	S	SNG	S	S
Spain {2}	S	S	S	S	SNG	S	S
Sweden {1,2}	S	SNG	SNG	SNG	SNG	S	S
UK <sup>22</sup> {1,3,2}	S	S	S	S	S	S	S
US {5}	S	S	S	S	SNG	SNG	S

The tabulation comprises: CG=Central Government, S=Shared & SNG=Sub-National Government.

Comparisons of functions delegated to various levels of governments show a surprisingly uniform pattern between countries. The difference between a highly decentralised country, with strong local authorities and a high degree of autonomy, and a very centralised one is seen, not so much in the number of functions delegated, but in the degree of freedom left to local authorities to decide which services to offer their citizens and how to implement such services.

The basic local functions - sanitary measures, road maintenance, street lighting etc. - have traditionally been purely local services financed out of local fees, charges and taxes. As far back as 200 years ago, the responsibility for redistribution responsibilities like free schools, poverty assistance, and care for the poor and sick was also in several countries delegated to local authorities.

The latter type of expenditure has been growing in importance with the development of the modern welfare state. Where these responsibilities are delegated to the local levels of government, disputes arise on who has the responsibility and the power to decide. The problems arise not only in the case of primary schools, but it has proven difficult to distribute functions like social assistance and health. A study of the EU countries has shown that local governments in all EU countries are responsible for physical planning, public health control, waste collection and disposal, parks and open areas, recreational amenities and culture, public transport and some social services (including services for elderly people and child care). The degree of local government responsibility for other services varies between countries.<sup>23</sup>

<sup>22</sup> Northern Ireland is not included as it differs too much from the rest of UK. Another particularity in UK is that many services are not the responsibility of sub national governments but are provided by agencies of central government e.g. water supply, post-16 education, urban development; housing and the provider of these and other responsibilities varies from region to region in UK.

<sup>23</sup> Kenneth Davey and Gabor Peteri (ed), "Local Government Finance- Options for Reforms", Oct. 1998, Local Government know how programme, p. 12.

The issue of distribution of functions by level of government is now under discussion in several countries. For example, commissions have been set up in Denmark and Norway. In Sweden, experiments are being made with new types of enlarged regions.

One lesson to be drawn is that central Parliaments, generally speaking, are only willing to delegate a share of their responsibility for the supply of free public services in the modern welfare state. These services are dependant on what counts at the ballot, and they are the issues picked up by the press in its search for “stories”.

The unwillingness of central Parliaments to share their powers with local authorities may also express political resistance against democracy. Decentralisation means that they have to share their influence regarding government expenditures and taxation.

### *2.3.1.3 The Decision-Making Power of Local Authorities: the Degree of Autonomy at the Local Level*

Decentralisation is a means of distributing political power. It has now been strongly established in former communist countries and in countries like Belgium and Spain. As early as the mid 19<sup>th</sup> century, the Scandinavian kings formed coalitions with local authorities to counterbalance the power of the nobility.

Political decentralisation depends on the central government’s willingness to allow for local differences in service levels, and the two issues tend to merge into one.

Countries with strong anti-centralist traditions, such as the USA, prefer decentralised solutions. This is true of federal countries concerning the distribution of functions between the central and the state level – but not between the state and local authorities. Table 3 suggests that the federal countries, which developed on the idea of decentralisation, are generally not those that delegate most to the local level.

It can also be seen from Tables 2.3 and 2.4 that none of the large countries are among those most decentralised. The distribution of functions to different levels of government is a highly political question. Because large countries typically have histories of minority suppression, they have needed strong central governments to create stability. Such countries seem to have two ways to go: they develop either federal solutions or centralist traditions. In the latter case, the tables indicate that they typically prefer comparatively centralist arrangements.

As mentioned above, there are economic gains in efficient decentralisation. However, decentralisation is also a political question, and there is no "right" way for any given country to decentralise.

The issue of autonomy is related to the, often quite complex, degree of discretion that local authorities exercise in their various functions and responsibilities. This issue is also tied to the main reasons for decentralisation of the public sector: to increase overall efficiency and effectiveness by allowing local authorities (with a close relationship to the people), to improve responsiveness, accountability and performance of service production and delivery. In many countries, dynamic and innovative

leadership of some local authorities has been used to find new ways and means of generating improved efficiency in the handling of functions.

Several elements can be used to describe the degree of autonomy of local authorities. One of these concerns the possibility for the central government to withdraw or limit the discretionary power of the lower level of government. The constitution of some countries protects the discretionary power of local governments. Another element concerns their potential command over self-generated resources: the share of and nature of own taxes, decisions regarding taxation rates and the establishment of the tax base, and the power to apply user charges and to borrow money. A high degree of autonomy is experienced in the Nordic countries, France and United States, whereas this kind of financial autonomy is quite limited in the Netherlands and Ireland.<sup>24</sup>

Autonomy can be seen in connection with central governments' overall objectives for economic policy and for the equitable provision of public services nationwide. In order to balance local wishes for autonomy with these national objectives, many countries have adopted minimum standards for different types of public services. These minimum standards have been established by considering the viewpoints of the local authorities and by involving associations of local authorities in their elaboration. A number of countries have established various fora for co-operation concerning the establishment of guidelines influencing decisions of local authorities in the field of own taxes, local expenditure targets and related matters. In this regard, associations of local authorities often play a major role.

### 2.3.2 The Operational Capacity Reflected in the Structure of Government Related to Number of Levels and Sizes of Local Authorities

#### 2.3.2.1 *The Municipal Level*

Two traditions of local government structure can be identified. There is the British tradition of ad-hoc authorities, developed at the end of the 18<sup>th</sup> century in response to new urban needs following industrialisation. Special boards were created for paving roads, street lighting, police and garbage removal. Later, these functions were gathered under multi-purpose districts and counties. The *single purpose* model for local government has survived, for example, in the United States, where numerous elected boards, each with its own specialised functions and financing, are common. An advantage of this model is the close democratic influence on the public service delivery and the economy of scale that is often achieved. Some of the disadvantages are the lack of overall priorities, the lack of co-ordination and accountability, the lack of simplicity and the obscured visibility of the tax rates.

The other tradition is a *multipurpose* local government organisation developed out of very old local structures. These were mostly church districts or central subdivisions created and staffed by the King for control purposes that subsequently evolved into authorities with locally elected councils to handle the joint affairs of the local population.

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<sup>24</sup> Alan Decamp (editor), Working Group on The European Charter of Self-Government", Oct. 1997.

The social pressures shaping local governments, however, were the same in both cases: migration to the cities paired with growing expectations regarding the level and quality of free welfare services since the world war required newly structured and organised local governments.

Century-old units have become depopulated and unable to meet the demands of the new age, and large reductions in the number of local units have taken place. Figures have been collected for different countries by the Council of Europe (see *Table 2.6*).

**Table 2.6: Number of Local Authorities, 1950 and 1992**

COUNTRY	Reduction in number since 1950. Pct.	Number 1992	Average size 1992	Per cent less than 10.000 inhabitants 1992
Zambia (1999)		72	140.230	Very few SNGs
Uganda (1999)		1050	19050*	Few of the sub-counties
Swaziland (1999)		13	15000**	Many of the rural SNGs
Senegal (1999)		433	214780	Many of the rural districts
Ghana (1999)		110*** + 1800 urban/Zonal councils and 16000 unit com.	N/A	Many of the lower tiers of SNGs
Zimbabwe (1999)		81	145680	Few of the rural SNGs
Council of Europe Countries				
Austria	42	2301	3340	91.5
Belgium	78	589	16960	17.3
Bulgaria	88	255	35000	8.2
Czech Rep.	44	6196	13730	95.7
Denmark	80	275	18760	6.9
Finland	16	460	10870	49.5
France	5	36763	1580	95.2
Germany	67	8077	4925	84.0
Greece	1	5922	1700	96.7
Iceland	14	197	1330	96.5
Italy	plus 4	8100	7130	72.9
Netherlands	36	647	23200	11.2
Portugal	plus 1	305	32300	8.5
Spain	12	8082	4930	86.2
Sweden	87	286	30040	3.1
Switzerland	3	3021	2210	92.0
UK	76	484	118440	N/A.

Source: *The size of municipalities, efficiency and citizens participation. Council of Europe. Local and regional authorities in Europe, No. 56. Council of Europe Press, 1995. Data from the African countries has been collected during the study on Fiscal Decentralisation and Sub-National Finance, 1998-2000. Senegal figures includes 43 arrondissements*

\*, Uganda: The 45 districts are very large, all with more than 100.000 inhabitants, but the lower tiers of SNGs are characterised by smaller units.

\*\* Swaziland: Only the urban population is estimated to cover approx. 20% of the country, i.e. approx. 200,000 inhabitants.

\*\*\* Ghana has a great number of smaller SNGs under these district assemblies, cf. the country study. The system was introduced in 1998, and is still not fully implemented

Since 1980, the move towards larger units has slowed, and only very few recent examples can be found. One example is the reforms in Scotland in 1992. These were part

of a large change of power for the Scottish office, and as the existing local government structure was quite new, deep-rooted feelings of belonging had not yet been established. In Central and Eastern Europe, a large number of smaller local authorities have been established in connection with the transition, which has created some problems of fragmentation.<sup>25</sup>

In Africa, many new units have been established in the last 20-30 years, e.g. in Zambia, Uganda, Ghana, Senegal and Swaziland.

Although efficiency gains may be achieved through amalgamations of local authorities, political resistance at the local level has been significant; very few reforms have been implemented without an element of force from the central government. This may explain why the speed in conglomeration seems to have been reduced by the modern political climate and the increasing powers of the media, both of which have made reforms against the will of the local people more difficult. Instead, the structural reforms have been supplemented by trends toward making a split between, on the one hand, local authorities as providers, and, on the other hand, the public institutions as more or less independent – perhaps even private – suppliers. There are countries (Germany and the Netherlands) where associations and non-public organisations are responsible for many of the decentralised functions: for example, social welfare and health. Another possibility is to join in different forms of inter-municipal cooperation arrangements<sup>26</sup>.

It can be seen from Table 2.6 that in some cases small units were maintained in thinly or unevenly populated countries (Finland, Iceland, Norway and perhaps Austria, Greece and Spain), though the example of Sweden demonstrates that this need not necessarily be the case.

Reforms have not been implemented on a major scale in countries such as France, Italy, and Germany, and there has been convergence between contrasting traditions in recent years. In the latter case, reforms have been implemented in some länder, while others have refused reforms. Recent reform efforts in France have failed because of political resistance.

The question of the optimal size of local authorities has been a subject of concern to local government experts in recent years. Evidence gives no clear answers, but many investigations indicate that local authorities with less than 5,000 inhabitants have increasing costs and declines in efficiency with their present tasks and functions. Results from investigations give no clear answers in the case of local authorities with over 5,000 inhabitants.

#### *2.3.2.2 The Middle Tier*

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<sup>25</sup> In some countries (for example, Latvia and Estonia) there are still ongoing reform plans with the aim to reduce the number of local authorities.

<sup>26</sup> This is very common in countries such as Netherlands and Finland, but is experienced in almost all European countries.

Many counties have established an intermediate level of government between the central government and municipalities. Sometimes, these are merely local representatives of the central government <sup>27</sup>, and, in federal countries, the state level often has legislative powers similar to that of the central government. Such authorities are not local authorities. However, in a number of countries there is a local authority placed between the central and the municipal levels. As to the responsibilities of the intermediate authorities, there are two models.

One model is the Nordic model (Denmark, Finland, Iceland, Norway, and Sweden), where the intermediate level consists of units so large that they can handle functions for larger population units than exist at the municipal level. This is also the model in some African countries such as Senegal. In Senegal 10 districts were established in 1997 to conduct some regional tasks, e.g. regional planning. The units of the intermediate level are in this model parallel to the municipalities, though with different responsibilities. In most cases, they have their own elected boards. In other countries (Belgium, Finland, the Netherlands, and Spain), small local units co-operate in the provision of local services. The role of intermediate government in the Nordic countries is under discussion, especially with regard to hospital service.

Another model is an intermediate level of regions overseeing and controlling local authorities (Belgium, France, Italy, and Greece). They may even include elements of ministerial regional administration and, in this way, become one of the possible instruments of central control. This is a very common model in a number of African countries, e.g. in the so-called prefect systems.

There has been a number of recent reforms creating a regional level of government between the central and the municipal levels (Finland 1994, France 1982, Greece 1994, Ireland 1994). However, the tendency is not clear. In Scotland, Wales, England and some German *länder*, the intermediate level has been eliminated. In the Dutch province of Friesland, a four-year experiment has been initiated to test a model with clearer and less interwoven distribution of responsibilities between the two levels.

Some general conclusions seem to have emerged. Firstly, there is a connection between the size of municipalities and the role played by the intermediate level. Small municipalities seem to be more in need of supervision and control. Secondly, there is a correlation between the role of intermediate government and the degree of decentralisation. A high degree of decentralisation is often correlated with the intermediate level.

Recent developments have not influenced either of these models. The new Finnish regions have been made responsible for regional planning and environmental functions, and are voluntary municipal associations. In France, the new regional authorities have been given responsibilities within the field of education and transport. In Greece, regional planning and primary education have been decentralised to the new regions.

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<sup>27</sup> Nearly all countries have a certain central government presence at the regional level, and many countries also at the local level. A good example is Senegal.

New thinking on the role of local government in other countries has resulted in political discussions on the need for an intermediate level. Proposals have been made in Denmark, Sweden and Norway to take functions from the intermediate levels and transfer them to municipal partnerships, to central governments or (for hospitals in particular) to independent units in market like constructions.

In the East European countries, the reforms after the communist regime have been mixed; but the general picture seems to suggest a two tier local structure, with quite large upper tier authorities having controlling functions in some cases.

### 2.3.3 Infrastructure and Service Provision and the Issues of Accountability

#### *2.3.3.1 Efficiency and Responsiveness in Local Government Infrastructure and Service Provision – Public Accountability*

Delegation of responsibilities for infrastructure and service provision to local governments can result in very different types and levels of services by area, depending on local conditions and priorities. The consequence of local self-government is that the client or service orientation of decision-making and administration re-orientates the focus away from mere production and towards effective distribution of public services. From a local perspective, the resulting disparities of quantities and qualities of public services throughout local authorities may appear questionable, and the voters can express their opinion at the next council election thus securing public accountability of the decisions made.

Participatory decision-making and other types of user involvement can further extend the deviation from the national average for service provision by user boards of schools, kindergartens or advisory committees for the provision of services to the elderly. These boards have been established recently in many countries. Indirectly, the councils of local government can also ensure that their decisions comply with the opinion of their electorates by the carrying out user-surveys. These surveys may question citizens' willingness to accept a reduction in the level and quality of services in order to obtain a corresponding reduction in the level of local taxes or question whether or not they are satisfied with the present balance between expenditure and revenue. The use of these surveys has increased in recent years in many countries.

However, disparities in the level and quality of services provided by various local governments can conflict with national policies and priorities. To secure compliance with national priorities with respect to type, quantity and quality of services, the central government can establish guidelines or minimum standards after consultation with the local governments..

Alternatively, the central government, by use of the financial resource allocation mechanism of earmarking transfers, can heavily influence local government decision-making in terms of the type, quantity and quality of services provided. The issue of different types of financial transfers is analysed further in Section 2.3.5.2 below.

The consultative and coordinative approach by setting guidelines and national minimum-standards to secure national priorities and increased equity has become more widespread and, furthermore, complies with the European Charter of Local Self-government instead of having rigid control and detailed legislation.

#### *2.3.3.2 Effective Administration - Managerial Accountability*

Managerial accountability emphasises efficiency in the optimal use of resources compared with achieved results related to expressed targets. The focus is not merely on compliance of services provided with the legal, regulatory and procedural framework, but also on performance and quality of the output related to different service areas.

The focus on managerial accountability as a means to achieve effective public administration is in accordance with theories and experiences of managerial economics of the private sector, which uses delegation of competence to enhance entrepreneurship and innovative approaches to service provision

The delegation of competence within the context of the local government entities calls for a division of power and responsibilities between the political leadership (the domain of local policies and priorities) and the administrative leadership (the domain of optimal compliance and performance related to the targets established by political decision-making). The clearer the division between the two types of leadership, the more potential there is for effective administration.

Performance related managerial accountability shifts the focus of the political leadership away from a project-level to a policy-level orientation. The mechanism of target performance leadership often leads to even further delegation of power and decentralisation to institutions under the domain of the local government. An increase in performance is quite often experienced in association with the increased flexibility in service production and distribution. This in itself legitimates and initiates the sub-delegation of responsibilities. In the forefront, there is the effective use of human resources, administrative capital and information technology.

Managerial accountability can be constrained by the institutional (and, partly, the regulatory) framework of local governments. It is influenced by the degree of competence that the administrative leadership possesses and by its ability to recruit and develop the heads of departments and sub-government institutions as well as the staff. The autonomy of hiring and firing is in compliance with the civil service code or more generally the labour market code and the human resource management by capacity building through restructuring of the local government organisation and systematic training of major categories of staff. With respect to administrative capital and information technology, the accountability is related to the degree of autonomy of the administrative leadership to introduce innovative approaches in the carrying out of the different tasks of the local government administration. In many countries, e.g. within Europe, there has been a tendency to ease these constraints and let the local authorities more freely organise their human resources. This matter will be dealt with in more in detail in Chapter 7.

The central government needs to be able to draw upon managerial accountability, which it may do by the introduction of a framework for “experimentation”. This framework has more flexibility in relation to the division of responsibilities among different levels of government, often on an ad-hoc basis, for a single or a few local governments in specified functional areas of administration. A number of countries (such as Germany, the Nordic countries, Switzerland, Canada and U.S.A) have this kind of framework to influence the division of responsibilities among different levels of government. Other countries have instead, or supplementary to this, established co-ordination mechanisms to secure more optimal solutions in the cases of shared or partly overlapping responsibilities.

### 2.3.4 Regulatory Framework

#### *2.3.4.1 Legislative and Regulatory Framework of Local Governments as Entities*

The highest protection of the autonomy of local governments is the constitution. The Nordic Countries, some of the federal countries and some of the new countries in Central and Eastern Europe are examples of this high level of security<sup>28</sup>. In other countries, autonomy is a part of the special legislation concerning local authorities, and, in a few cases, the autonomy of local authorities is established by a presidential decree offering only quite limited security of local self-government in cases of controversy.

A clear regulatory framework, first and foremost a clear law on local governments, is a very important condition for the provision of services by local governments. A clear division of responsibilities, a broad legal framework for local government functions and a clear description of the relationship between the different levels of government and competencies is a prerequisite for a well-functioning system of sub-national governments. In recent years, many reforms have been initiated in order to bring greater clarity in this area, especially in Central and Eastern Europe.

Another closely linked factor is the degree of control exercised by the central government (e.g. control of the use of expenses; decision-making power regarding land, property, human resource management; and organisational structure).

Most countries, especially in the OECD, have recently attempted to stimulate consultation and co-ordination among different levels of governments, rather than strengthen formal controls, e.g. through prefect systems<sup>29</sup>. There has been a tendency

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<sup>28</sup> In many countries, the principles of local self-determination are included in the constitution (for example Austria, Belgium, Greece, Denmark, Italy, Netherlands, Sweden, Bulgaria and Latvia). The same is the case in a number of African countries, most directly in the Constitution in Uganda, 1995. In England and Wales, it is part of common law. However, the parliaments of these countries normally determine which functions are to be decentralized.

<sup>29</sup> For a more detailed treatment of this subject see, “Managing Across Levels of Governments”, OECD, 1997, p. 2.

to move away from strict legislation and detailed rules towards more goal-oriented and performance related dialogue between different levels of government<sup>30</sup>.

#### *2.3.4.2 Restraints and Controls on the Functions of Local Government*

Apart from the regulatory and legislative framework for local governments as entities, there may exist restraints on their various functions and competences. Such restraints could take the form of special legislation, by-laws, letters of instruction from line ministries and special codes (such as building codes and hygienic codes).

Restraints could also entail formal requirements for approval, prescribed procedures or co-ordination prior to local government decision-making. For example, in many countries, local governments are empowered to take loans but must seek prior approval, despite being deemed creditworthy by the lending institution.<sup>31</sup> Thus, a procedure that appears to be in favour of autonomy of the local government decision-making in practice may be a restraint.

The co-ordination type of restraint often refers to systems of regular agreement on guidelines for local government activities established between the central ministries and the national associations of local governments. The co-ordination agreement is considered more flexible than a legislative framework, easier to adapt to changing circumstances and thus more comprehensive. Again, however, it is necessary to consider the total regulatory framework in order to be able to estimate the degree of autonomy of local governments.

#### *2.3.4.3 Regulatory framework related to private participation in infrastructure and service delivery*

A field of special importance for local governments to enhance their flexibility and competitiveness concerns private sector participation in infrastructure and service provision.

Until recently, in many countries the regulatory framework restricted methods for improving service provision by local authorities, especially in periods of financial constraint. The intentions of the local councils could be to use the market mechanism to effectively improve the administration by creating incentives for innovation or changes in working procedures and norms.

For councils seeking a flexible mix of public, private or public-private partnerships, the steps for provision of the regulatory framework may appear complex and troublesome. The way the private sector could be involved covers a whole range of conceptual and practical solutions where public function may be commercialised, management delegated or ownership transferred to the private sector.

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<sup>30</sup> cf. above.

<sup>31</sup> See e.g. Council of Europe: "Local Authorities' Budgetary Deficits" and Excessive Indebtedness", Strassbourg.

The trend in many countries shows an increasing awareness of the necessity to create a competitive environment for the provision of infrastructure and services. This development is enhanced by a requirement from central government or, in the case of the European Union, from the European Commission to undertake tendering processes in more and more fields of public sector functions.

## 2.3.5 Fiscal Decentralisation

Fiscal indicators are important to delimit local government autonomy and the level of decentralisation.

Section 2.3.3 and 2.3.4 gave a short overview of local government *expenses* and some indicators of autonomy. Of equal importance is the subject of local government revenues.

### 2.3.5.1. *Composition of Revenues*

Careful consideration of the *composition of revenues* is very important. The composition of revenues varies greatly from one country to another. Typically, the following main types of local government revenues can be identified:

- Revenue from the sale of services - non-tax revenues and user charges/fees.
- Tax revenues - local taxes or shared national taxes.
- Different types of grants (e.g. general and specific) made available to local governments from the central government.
- Borrowing, e.g. for investment expenditure.

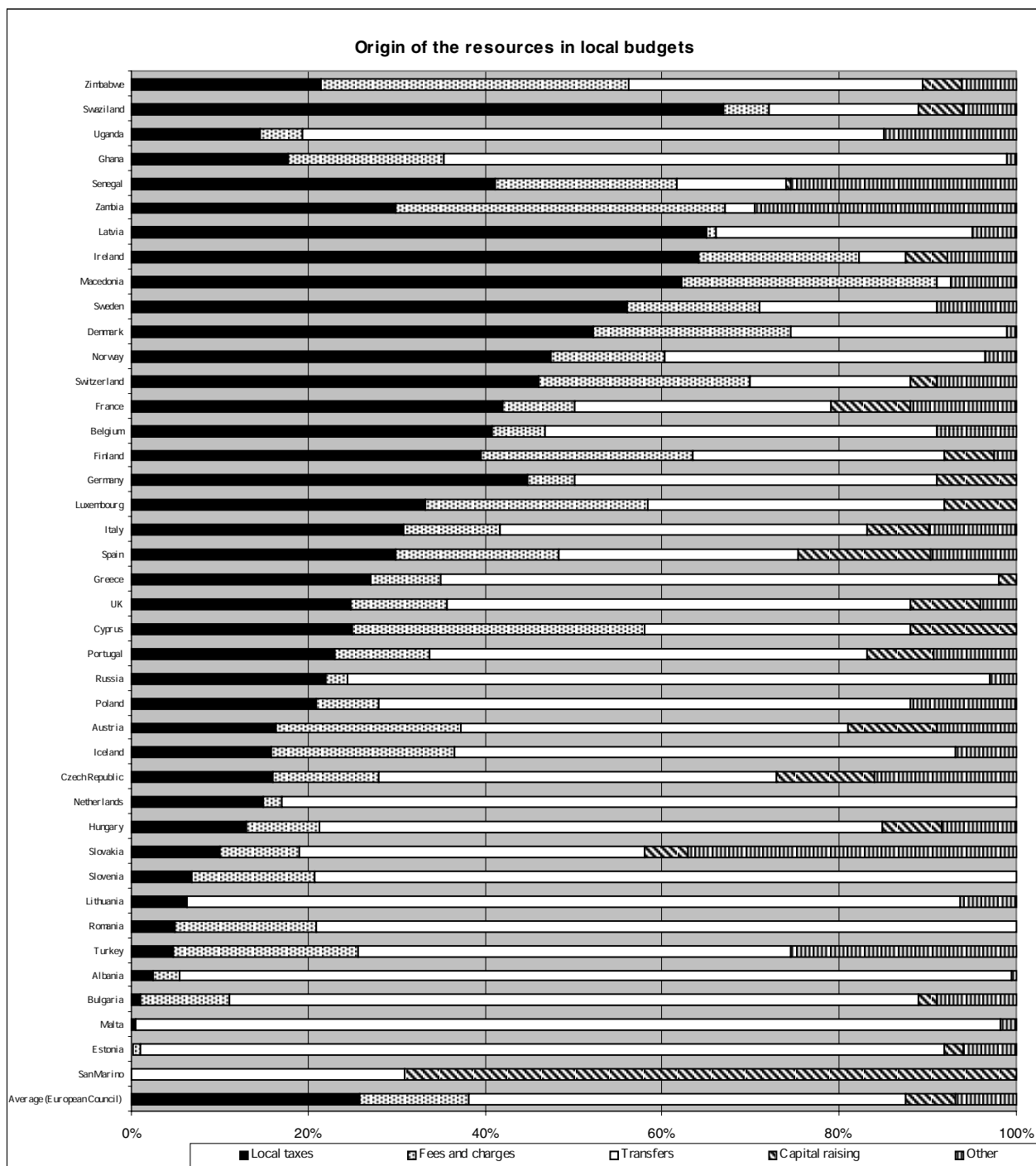
“Own revenue sources” are understood as resources where the local governments can influence the revenue level and are able to dispose of the revenues freely give the highest level of autonomy. These are often connected with local taxes and different kinds of user charges<sup>32</sup>.

The distribution of these categories varies greatly from country to country (see Table 2.7 below):

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<sup>32</sup> It is difficult to make a rank order of revenues according to the level of autonomy, as other factors have an impact as well. However, generally, the following order is useful: 1) own revenue sources (own taxes and user charges), 2) shared taxes, 3) general grants, 4) conditional grants, 5) specific and discretionary grants and 6) grants given to “agent functions”. In the definition of own taxes, factors such as the possibility to set the tax rate, to define the tax base and to influence the collection of taxes (indirectly influence the level of revenue) are important. All these factors will be investigated in Chapters 4 and 6.

**Table 2.7:**



The table is based on reports by members of the group of experts, the work by the DEXIA and in the absence of any such figures, statistics included in the so-called CDLR report. Paper from the working group on "The European Charter of Local Self Government", Strassbourg 21, October 1997, Finance of Local authorities (impl. Of Art. 9 of the charter, cf. also appendix No. 2). Africa: Cf. this report.

Economic and political problems at the central government level sometimes result in the delegation of responsibility without the delegation of tax powers or grants; the difference is referred to as *the “vertical imbalance”* in the public sector economy.

Small vertical imbalances ex ante (i.e. before the local budgets are made) in favour of the government are indispensable instruments for the control of local authorities. They give incentives for local authorities to improve their tax effort and their efficiency in the delivery of local services. In Brazil, Colombia and Venezuela, revenues have preceded the delegation of responsibilities. Such imbalances in favour of local governments tend to promote excessive spending<sup>33</sup>.

However, large vertical imbalances in favour of central government easily result in uncontrolled deficit financing and accumulation of local debt. At some later stage, they must be replaced by grants to the local authorities to cover the vertical imbalance ex post, and at this late stage, decisions on excessive local expenditure may be difficult to reverse. The present research has confirmed is the case in many African countries.

There is a delicate equilibrium point between ex ante and ex post imbalance. The point here is not to misuse the introduction of good incentives for local efficiency so that the institution of local government becomes discredited.

Vertical imbalances ex post can be defined as grants received by local governments. Once local provision is decided, the major choice is between grants and local taxes. Local taxes may be grant-like tax sharing receipts (see below) or own local taxes. Own local taxes are those where the local authority has some influence over taxation (level, base or collection). This means that the local population must suffer higher taxation if they want better services or if the local authority is inefficient and wasteful. Modest service standards and good management are rewarded by low local taxes. This gives the right incentives for the local population at election time. A high level of own taxation also deprives the local councils the possibility of placing responsibility for failing delivery of local services on the lack of money from the central government.

The advantage of own local taxes over tax sharing arrangements is that own taxation results in *accountability*; it affects the behaviour of the local population and the local councils in a positive way. The combination of ex ante, non-financed small vertical imbalances with the existence of own local taxes is a strong recipe for better efficiency in a decentralised public sector.

The table below gives some indications of the choice between grants and taxes in different countries. The table shows that the proportion of local taxes varies greatly from country to country.

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<sup>33</sup> Kiichiro Fukasaka and Ricardo Hausmann (eds.): “Democracy, Decentralisation and Deficits in Latin America”, OECD Development Centre, 1998.

**Table 2.8: Relationship between Taxes and Grants for Local Authorities in Different Countries.  
1995**

Per cent	Grants/Donor Contribution	Local taxes <sup>34</sup>
Uganda (1997/98)	76.9	23.1
Swaziland (1998)	17.7	82.3
Ghana (1996)	63.8	36.2
Senegal (1997)	22.0	78.0
Zimbabwe (1997)	33.3	67.7
Zambia (97)	3.4	96.6
<b>OECD-countries</b>		
Australia	15.9	84.1
Austria	15.1	84.9
Belgium	54.2	45.8
Canada	47.4	52.6
Czech Rep.	28.7	71.3
Denmark (1)	21.6	78.4
France	35.9	64.1
Germany	31.4	68.1
Iceland	9.9	90.1
Ireland	73.9	26.1
Mexico	4.2	95.8
Netherlands	72.6	27.4
Norway	38.7	61.3
Poland	29.4	70.6
Spain	86.0	14.0
Sweden	18.0	82.0
UK	72.3	27.7
US	38.8	61.2

*Source: Revenue Statistics 1965-97. OECD 1998. The data from Sub-Saharan countries are from the Study on Fiscal Decentralisation and Sub-National Finance, 1999-2000. Zambia: based on data from Ministry of Finance (1997 figures: User charges is included in local taxes)*

*Uganda: 1997/98 figures. Swaziland: 1998 figures. Ghana only 6 sample SNGs (loans excluded).*

*(1) Figures adjusted for SNG administration of national transfers (old age pensions).*

The countries with the largest share of grants are English-speaking countries: Canada, Ireland, UK and the US. In these countries, local governments have been left with insufficient tax capacity to cover the costs of the delegated functions. They have only access to property taxation, and the property tax has limited revenue potential. Property tax is regarded as a perfect local tax by economists, but, politically, it is a very unpopular tax and yields no more than 4 per cent in any OECD country. Only in Canada, Japan, Luxembourg, UK and US does it yield more than 3 per cent. This is in most cases less than the cost of a modern primary school system.

The importance of grants vs. local taxes ranks average in Germany. However, this masks the inclusion under taxes of figures for tax sharing receipts.

<sup>34</sup> Including tax-sharing revenues. For African countries also other revenues.

Local councils seem to prefer tax sharing for grants, as they believe that they receive a fixed proportion of the taxes the central government collects in their jurisdiction<sup>35</sup>. Local authorities believe that this is a guarantee against cuts in revenue in the case that the central government needs to save. The disadvantage of tax sharing is the same seen from the point of view of the central government; tax sharing weakens its instruments of control.

In Germany, sharing of the income tax is the traditional way of filling the vertical imbalance, and the German tradition has been adopted in German-speaking Europe. In the OECD statistics (the basis for the figures in this report), tax-sharing receipts are included under local taxes and cannot be separated (a reform within this area has been initiated)<sup>36</sup>.

The Nordic countries (Denmark, Sweden, Norway, Iceland and Finland) are traditionally countries with the highest proportion of taxes and of own taxes. This is explained by the use of the personal income tax as a local tax. Personal income tax has large revenue potential in Europe. In Denmark and Sweden, it yields more than 15 per cent of the GDP, leaving very limited needs for grant financing.

#### *2.3.5.2. Local Taxes*

Local taxes are normally the greatest source of income, and they represent one of the most important features of local authority autonomy. The possibility of influencing either the tax base, the tax rate or the collected revenues is a very important condition for the local authorities, making them able to adapt the service level to the financial possibilities.

The arguments for the introduction of own local taxes have been made above. However, a number of conditions should be met for a tax to be a good “own” local tax.

- Firstly, the revenue of a good local tax should develop over time in the same way as the costs of fulfilling the growing need for local public services.
- Secondly, local taxes should not be too sensitive to cyclical fluctuations, as the local services normally are not suitable as instruments for demand management.
- Thirdly, a good local tax should be distributed relatively equally among local authorities. Equalisation of the taxes throughout the local authorities may reduce this problem, but not eliminate it.

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<sup>35</sup> Jørgen Lotz, “Proceedings of the Regional FDI Conference”, November 24-25, 1997 Copenhagen, p. 113.

<sup>36</sup> The OECD has initiated work to produce figures making it possible to distinguish between tax shares and local taxes. In the present research, we have tried to make a distinction between the two types as they differ in terms of degree of autonomy.

- Fourth, the size of the potential revenue is important. If the local authorities are allowed only relatively small yielding taxes, vertical imbalances result that will have to be otherwise covered.
- Fifth, there should be a close relationship between the citizens who pay and the citizen who benefit.
- Sixth, the tax administration should be without major problems, i.e. the tax yield should be much higher than the administrative costs.

As has been shown above, the size of the vertical imbalance in different countries is closely related to the local government tax structure. It was shown that the dependency on grants in the countries relying on property taxes was much higher than the reliance on grants in the countries relying on more buoyant taxes, like a local income tax. These findings may not be directly applicable to the African region, where property tax seems to be more buoyant than the income tax. However, this research has shown that property tax alone cannot finance the present tasks.

There is considerable variation in the national styles of local taxation, as can be seen from the table which shows groupings of countries with somewhat similar composition of local taxes, based on figures from the previous table.

**Table 2.9: Local Government Taxes, per cent of Total Local Tax Revenue (1997)**

	Income taxes (2)	Property tax	Other taxes	Total
Zambia (3) (1997)	16.1	36.2	51.3	100
Senegal (Dakar) (4)	15.1	29.8	55.1	100
Ghana	N/A	N/A	N/A	N/A
Uganda (1997/98)	82.6	17.4	0	100
Swaziland (1998)	0	100	0	100
Zimbabwe (1997)	0	100	0	100
Sweden	99.7	0.0	0.3	100
Finland	95.8	4.0	0.2	100
Denmark	93.4	6.5	0.1	100
Luxembourg	93.1	5.7	1.2	100
Norway	89.9	9.4	0.7	100
Czech Rep.	89.2	5.2	5.6	100
Switzerland (1)	84.4	15.0	0.5	100
Germany (1)	77.1	21.7	1.1	100
Belgium (1)	82.4	0.0	17.6	100
Iceland	78.2	14.7	7.1	100
Poland	59.5	32.5	8.2	100
Japan	52.6	30.4	17.0	100
Austria (1)	35.5	9.4	55.1	100
Turkey	30.8	3.0	66.2	100
Portugal	22.7	38.8	38.5	100
Spain	26.4	34.9	38.7	100
France	15.5	31.4	53.1	100

Korea	12.3	57.1	30.6	100
USA (1)	6.0	73.3	20.7	100
Italy	18.4	34.4	47.2	100
Ireland	0.0	100.0	0.0	100
Australia (1)	0.0	100.0	0.0	100
United Kingdom	0.0	99.1	0.9	100
New Zealand	0.0	90.6	9.9	100
Netherlands (1)	0.0	66.2	37.8	100
Hungary	0.0	22.2	72.8	100
Unweighted average (4)	44.7	34.8	20.4	100

(1): Federal states. Only tax revenues of local government are included, not state taxes.

(2): Includes personal and company income tax revenues.

(3): Personal levy is classified as personal income tax. Data from Central Statistical Office, Zambia

(4) : Unweighted average of 26 OECD countries.

Source: OECD, *Revenue Statistics 1965-1998*, OECD 1999. Data from the African countries is from the Study on Fiscal Decentralisation and Sub-National Finance in Relation to Infrastructure and Service Provision in the Sub-Saharan African Countries, 1998-2000. Uganda: Decentralisation Secretariat, 1997/98. Senegal, Dakar 1997 as example. Zimbabwe 1997 figures, Swaziland 1998 figures.

**Table 2.10: Local<sup>1)</sup> Tax Structures, 1994 (Unweighted Averages, Per Cent)**

Taxes (tax sharing receipts included) on:	English speaking: Canada, USA, New Zealand, Australia, UK	Nordic countries: Denmark, Sweden, Norway, Finland.	Federal German speaking: Austria, Germany, Switzerland.	Unitary, Europe centre/ south France, Italy, Spain
Income	1	95	72	18
Property	89	5	14	39
Others	10	-	14	44
Total	100	100	100	100

Source: Revenue statistics. OECD 1996. (See appendix 1).

All levels except central and federal state governments.

The tables also show that the English speaking countries and the Netherlands have local tax structures dominated by property taxes, while those, for example, of the Nordic countries emphasise local income taxation.

The local tax structure of the German speaking countries is dominated by the sharing of income tax. Another feature of these countries, which is also found in the last group of countries, is the widespread use of “business taxes,” like the “Gewerbesteuer” in Germany and the “Taxe professionnelle” in France. They are taxes collected on composite tax bases of items such as the rental value of buildings and equipment, local payroll and turn over. In the table, they are classified as by the OECD according to the different tax bases.

In spite of generally accepted economic advantages, the neutrality of the local property tax, and the buoyancy of the local income tax, changes from one major tax source to another are not frequent. Introduction of local taxes is politically sensitive, new taxes

are difficult to introduce, and once introduced they are difficult to replace with other local tax sources.

These are the patterns for the financing of decentralisation in the old OECD countries. These patterns are found also in the countries having later developed systems of local government financing. The tentative findings in the African research countries are that the most important local government tax type is the property tax, with a potential for other types of taxes and revenues.

In the Eastern European countries in transition, the local tax systems are only in the early stages of development. The “own” revenue sources consist typically of limited revenue from property taxes, often with central government restrictions on the local rate, and income tax. The German model of income tax sharing is widely used. These revenues have left the local governments with little own revenue. In Japan and Korea, the major tax revenue is property tax, which is also supplemented with tax sharing receipts.

#### *2.3.5.3 Grants and Local Government Equalisation*

##### *2.3.5.3.1 The Vertical Imbalance*

In most countries, the central government provides grants to local authorities (see the tables above). The primary reason is that the state has not allowed local authorities sufficient tax powers to finance the expenditure assignments of local government; but there are a number of other good reasons for a certain amount of state grants/transfers to lower levels of governments.

##### *2.3.5.3.2 Grants*

Grants offer a good instrument for central government to bring local authorities into the general macroeconomic management of the economy. Local services like schools and social services should not bear the brunt of adjustments in stabilisation policies; but, in periods of severe imbalances, adjustment of such services cannot be avoided, as witnessed by recent experiences in welfare states like Sweden and Finland.

Grants may also offer instruments to influence priorities in expenditure decisions at the local level. Firstly, it must be ensured that the grants are transformed into local services and not into the private wealth of local citizens. (In rich countries, economists have given this phenomenon the derogatory name of “the flypaper effect”: the money sticks where it hits). Secondly, the central government wants to be able to influence local priorities so that they conform to central government priorities. Therefore, some of the grants are commonly designed as *special* grants for specific earmarked purposes. In contrast, *general* grants are for the free use by local authorities. Thirdly, grants can be used for equalisation purposes: to level out the differences between the “rich” and the “poorer” local authorities and to stabilise development across the different regions of a country.<sup>37</sup> Finally, grants can be appropriate to use for adjustment of the economy in

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<sup>37</sup> In Swaziland, it is discussed whether grants can compensate for the fact that the inhabitants from some informal settlements use the services within certain local authorities (as a form of cost-sharing).

situations when tasks are transferred between the levels of governments (as a kind of compensation).

### *Specific Grants*

In terms of autonomy, grants vary from general grants, designed and distributed by objective criteria (high), to specific grants, made on a discretionary basis (low).

One way to follow some of the above-mentioned objectives is to use what has been called specific grants. One example is a grant for capital purposes that can be conditioned so that the local authority must have prior approval of a project before the grant is given. Grants for operational expenditure may be automatically conditioned by local spending in accordance with specific rules, but discretionary grants are known also for operational expenditure, often in order to promote new kinds of services among local authorities. To compensate for the central lack of information and to test the strength of local priorities, some local co-financing is often required.

There are several problems with specific grants. Experiences from Chile (grants for schools and primary health care) and Colombia (matching grants for rural roads) showed that high reimbursement rates encouraged spending and became a drain on central government finances. Subsequently, reimbursement rates were reduced, but the result was that the richest authorities with the highest fiscal capacity also received the major proportion of the grants. In Chile and Colombia, this resulted in inequalities in spending<sup>38</sup>.

Specific grants require controls, auditing and much bureaucracy. This has been found to result in inefficient decision-making and to weaken economic responsibility. The Council of Europe Charter of Local Self-Government, which has now been ratified by a number of countries, states that specific grants should be changed to general grants. In recent years, reforms have been introduced in the OECD countries to replace specific grants with general grants.

### *Grants and Equalisation*

The need for grants varies among authorities because their expenditure needs are not the same. Roads and water supply may be most costly in mountainous regions, and the costs of education and social welfare may be highest in urban areas. If some uniformity of service levels is desired, it is necessary to compensate for these extra costs. Furthermore, if local authorities are allowed some tax powers, it must be taken into account also that tax capacity varies among local authorities. The method of grant distribution also must compensate for less than average local tax powers.

The compensation for low tax capacity and high expenditure needs is called local government equalisation. Systems that consider one or both elements are developed in many countries around the World<sup>39</sup>.

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<sup>38</sup> Kiitichiro Fukasaka and Ricardo Hausmann (eds.): "Democracy, decentralisation and deficits in Latin America". OECD Development Center, 1998.

<sup>39</sup> In a number of African countries, systems of equalisation are presently under development, e.g. in Uganda and in Swaziland. The Council of Europe has developed agreed principles for this:

Political critiques are often heard from losers who claim that their country's system of local government equalisation is too complicated. There are several reasons why it has to be so. Equalisation deals with the politically very difficult questions of redistribution; some have to give to others without getting anything in return. The result is that compromises have to be reached, and it is often politically expedient to compensate for needs of a petty nature.

Finally, it may be noted that equalisation can be implemented without central government grants if the so-called solidarity (or "Robin Hood") model is applied, as it is in Denmark, German *länder*, and Sweden. The idea is that the funds needed to support poor authorities are taken from the rich authorities. The method results in a more complete equalisation than is typical when grants are used, because the richest authorities are drawn into the system. The disadvantages of this system are political, and it has resulted in internal tensions between groups of local authorities. In contrast, grant financed equalisation seems to make everybody happy by some fiscal illusion, everyone gets something and nobody seems to have to pay. The potential for conflict built into this method means that it is not a model for countries in need of nation building, like Canada, China, Russia or Ukraine.

Changing from specific grants to general grants complicates the measure of equalisation of differences in local expenditure needs<sup>40</sup>. The idea of the general grants is to leave the local authorities to find the most locally efficient solutions. However, this means that the performance related criteria of the specific grants should be replaced by general "neutral" criteria for grants.

An example is the system inherited by a number of Eastern European countries from the communist regime. In some countries, criteria for needs are a set of "norms", a number of which measure the population and its age groups, but most of which measure the number of services being supplied. Each client is assigned a norm cost, depending on the kind of institution, all somewhat below average costs. The equalisation is implemented by paying these amounts to the local authority producing the service. Some elements of this still exist, and, in some countries, the measure of local expenditure need for old age care is based on the number of elderly staying in old age homes.<sup>41</sup>

This is quite different from the methods used in most Northern European countries, where the measures of expenditure needs do not include the *number of services* but are replaced by "objective" measures of needs, understood as the cost of the number of expected clients. In the Nordic countries, the measure for the same need for finance of the elderly care is the *number of elderly people*. This leaves it up to each local

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"Equalisation of resources between local authorities", Recommendation No. R (91) 4 and explanatory memorandum, Council of Europe.

<sup>40</sup> This is especially a problem in developing countries where data is very restricted/limited.

<sup>41</sup> In Bulgaria, a number the criteria for expenditure needs are based on the number of places in different social institutions.

authority to deliver the desired services to the elderly people at an appropriate quality and amount.

The problems of finding acceptable objective criteria for measuring expenditure needs as a basis for grant distribution are formidable. Measures of expenditure needs based on objective criteria tend to be complicated. Furthermore, local authority needs may be so different that a comparison may not be possible, the problems being typically in the extremes – the needs of small, thinly populated rural authorities measured against needs of large urban authorities.

The more functions that are delegated to local authorities, the more factors that must be considered and the more complicated the formula becomes. Therefore, the system can easily become a target for criticism, especially from the contributing local governments.

It can be seen that the design of the measure of expenditure needs is closely related to the choice between specific and general grants. The move towards general, objective criteria – as well as to general grants – must depend on the local capacity to administer and produce services. When these conditions are satisfied, gains in efficiency should be possible by shifting to general grants and objective criteria of needs, and this way leaves more discretion to the local authorities. Ideally, the design of grants should both support poorer areas and encourage revenue mobilisation and cost efficiency.

#### *Procedures for Distribution*

Besides the above-mentioned conditions, it is equally important for local authorities to have a clear knowledge and understanding of the principles, timing and organisation of the grant distribution process. In some countries, local authorities know of the grants 6 months before the budget year and the distribution is 100% transparent, while in other countries grants are insecure, non-transparent and transferred very late in the budget year with non-stable instalment rates.

#### *Tax Capacity and Tax Effort and Links to Transfers*

When local authorities are allowed their own tax collection, and significant tax sources are made available, the need for equalisation of the tax base arises as well.

The difficulty of measuring and comparing differences in the tax capacity of local authorities is first the role of the local authorities themselves in improving their tax capacity. If this is not controlled, equalisation gives adverse incentives for local tax efforts. For example, in China, one of the most pressing problems is the question of how to control that the apparent low tax capacity of certain provinces is not the result of the lack of effort by the local tax administration. For this reason, it is important to develop incentives for local authorities to collect taxes and at the same time secure certain equal financial possibilities across local governments to increase revenues and

to balance the finance with the needs. Local efficiency in tax collection should not be punished by a reduction of the grants from the central government <sup>42</sup>.

## ***2.4 Concluding Remarks***

The above analysis of some of the indicators of decentralisation showed that many different models have been pursued around the world to set up the optimal financial system of local government and an appropriate regulatory and institutional framework for local government service provision and infrastructure. The analysis showed a trend in the direction of decentralisation, but with a great variation of methods and strategies. The following chapters contain the main findings from the country study of Zambia.

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<sup>42</sup> In some countries (for example, Latvia), there are instances where the system has provided the local authorities with incentives to increase the tax exemptions from property tax, thereby reducing the total revenues.

**Appendix No. 1 (to Table No.2.2): Local Tax Revenues as per cent of GDP, 1997**

	<b>Income tax (2)</b>	<b>Proper- ty tax</b>	<b>Other taxes</b>	<b>Total taxes</b>	<b>local</b>
Sweden	15.8	0	0	15.8	
Denmark	14.4	1	0	15.4	
Finland	9.9	0.4	0	10.3	
Norway	7.0	0.7	0	7.7	
Japan	3.8	2.2	1.1	7.1	
Iceland	5.9	1.1	0.5	7.5	
Switzerland (1)	4.4	0.8	0	5.2	
Czech Rep.	4.0	0.2	0.2	4.4	
Austria (1)	2.6	0.4	1.7	4.7	
France	0.7	1.5	2.3	4.5	
Spain	1.4	1.9	2.1	4.4	
Korea	0.5	2.3	1.2	4.0	
USA (1)	0.2	2.7	0.8	3.7	
Canada (1)	0	2.8	0.4	3.2	
Poland	2.2	1.2	0.3	3.7	
Germany (1)	2.1	0.6	0	2.7	
Turkey	1.1	0.1	2.3	3.3	
Luxembourg	2.6	0.2	0	2.8	
Belgium (1)	1.9	0	0.3	2.2	
Portugal	0.4	0.8	0.8	2	
Italy	0.5	0.9	1.3	2.7	
New Zealand	0	1.8	0.2	2	
Hungary	0	0.4	1.2	1.6	
United Kingdom	0	1.4	0	1.4	
Netherlands	0	0.8	0.5	1.3	
Australia (1)	0	1	0	1	
Ireland	0	0.7	0	0.7	
Greece	0	0	0.3	0.3	
<b>Unweighted average</b>	<b>2.9</b>	<b>1.0</b>	<b>0.6</b>	<b>4.5</b>	
Zambia	0.03	0.07	0.09	0.2	
Senegal				0.8	
Ghana	N/A	N/A	N/A	N/A	
Uganda	0.54	0.11	0	0.65	
Swaziland	0	0.5	0	0.5	
Zimbabwe	0	0.8	0	0.8	

(1): Federal country. Figures include only taxes at the local level.

(2): Personal and company income tax.

Source: OECD 1999, Revenue Statistics 1965-1998. Zambia figures (1997): Ministry of Finance and Central Statistical Office. Swaziland: 1998 figures, Study 1999. Senegal 1997 figures, Study 1999. Uganda: Figures 1997/98, Study 1999. Ghana 1996, Study 1999. Zimbabwe 1997 figures, Study 2000. All figures from African countries are from the Study on Fiscal Decentralisation and Sub-National Governance Finance in Relation to Infrastructure and Service Provision.

**Appendix No. 2 (to Table 2.2): Origin of the Resources in Local Budgets**

	<b>Local taxes</b>	<b>Fees and Trans- charges</b>	<b>fers</b>	<b>Capital raising</b>	<b>Other</b>
Albania	2.5	3.0	94.0	0	0.5
Austria	16.3	21.0	43.7	10.0	9.0
Belgium	40.8	6.0	44.3	0	9.0
Bulgaria	1.0	10.0	78.0	2.0	9.0
Cyprus	25.0	33.0	30.0	12.0	0
Czech Republic	16.0	12.0	45.0	11.0	16.0
Denmark	52.2	22.3	24.5	0	1
Estonia	0.1	0.9	91.0	2.0	6.0
Finland	39.5	24.0	28.4	5.6	2.5
France	42.0	8.0	29.0	9.0	12.0
Germany	35.0	4.0	32.0	7.0	0
Greece	27.0	8.0	63.0	2.0	0
Hungary	13.0	8.2	63.6	6.7	8.5
Iceland	16.0	21.0	57.0	0	7.0
Ireland	64.2	18.0	5.4	4.6	7.8
Italy	31.0	11.0	42.0	7.0	10.0
Latvia	65.0	1.0	29.0	0	5
Lithuania	6.4	0	87.3	0	6.3
Luxembourg	32.9	24.9	33.2	8.0	0
Malta	0.5	0	97.8	0	1.7
Netherlands	15.0	2.0	83.0	0	0
Norway	47.5	12.8	36.2	0	3.5
Poland	21.0	7.0	60.0	0	12.0
Portugal	23.0	10.8	49.5	7.5	9.4
Romania	5.0	16.0	79.0	0	0
Russia	22.0	2.5	72.5	0	3.0
San Marino	0	0	31.0	69.0	0
Slovakia	10.0	9.0	39.0	5.0	37.0
Slovenia	6.8	13.9	79.3	0	0
Spain	29.8	18.5	27.1	14.9	9.7
Sweden	56.0	15.0	20.0	0	9.0
Switzerland	46.0	24.0	18.0	3.0	9.0
Macedonia	62.3	28.8	1.5	0	7.4
Turkey	4.8	20.9	48.9	0	25.5
United Kingdom	25.0	11.0	53.0	8.0	4.0
<b>Average</b>	<b>25.7</b>	<b>12.2</b>	<b>49.0</b>	<b>5.6</b>	<b>6.9</b>

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Zambia	29.8	37.3	3.4	0	29.5
Senegal	41.1	20.5	12.4	0.5	25.5
Ghana	17.8	17.6	63.8	0	1.0
Uganda	14.5	4.9	65.5	0	15
Swaziland	67.3	5.2	16.7	5.2	5.1
Zimbabwe	21.4	34.8	33.3	4.3	6.2

The table is drawn up on the basis of reports by members of the group of experts, the work by the DEXIA and in absence of any such figures, on the statistics included in a so-called CDLR report. Paper from a working group on "The European Charter of Local Self Government", Strasbourg 21 October 1997, Finances of Local Authorities (implementation of art. 9 of the charter). The figures from African countries were collected during the study on Fiscal Decentralisation and Sub-National Finance in Relation to Infrastructure and Service Provision in Sub-Saharan Countries, 1998-2000. Zambia: Average 1994-98 figures: Source: Central Statistical Office. Senegal 1997 estimates, Local taxes for Senegal are composed of own taxes: 39.7% and shared taxes: 1.5%. Uganda: Figures 1997/98. Swaziland: 1998 figures. Zimbabwe 1997 figures, Ghana 1996 figures from 6 sample SNGs.

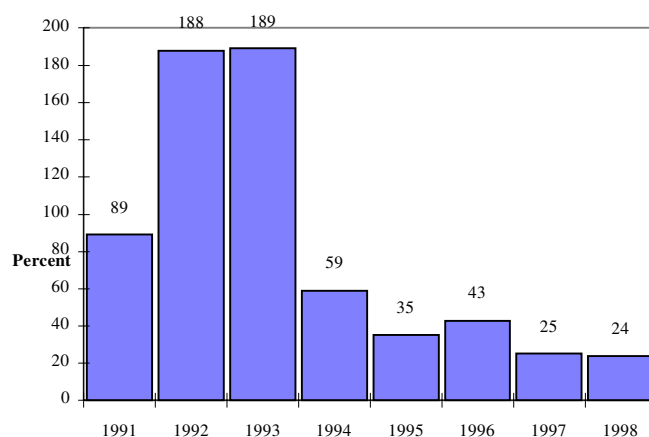
## CHAPTER THREE

### THE CONTEXT OF THE COUNTRY

#### 3.1 The Government Structure

Zambia has gone through a series of significant policy shifts since it attained political independence in 1964. At independence, the country's mineral resources were well developed, and its expenditure levels reflected the steady and considerable export receipts mainly from copper. The country's economic performance declined after 1974 largely due to the fall in world copper prices. Between 1974 and 1988, for example, Zambia's external receipts from metal products declined by 23 percent. This condition compromised the needed re-investments in both the mining industry and other sectors of the economy. The economy continued to suffer from high inflation, huge budget deficits and a distorted price structure. By 1992, the inflation growth rate reached around 190 percent. It declined to about 24 percent in 1998 largely because of the government's adherence to the cash budget that managed to eliminate the budget deficit by 1996. Due to the general poor economic performance, both local and central governments have experienced severe constraints in the discharge of their respective functions. Figure 3.1 shows the inflation growth trend over the 1991 - 1998 period.

Figure 3.1. Average Annual Inflation Rate



Zambia is divided into nine provinces. Presently, the political system in Zambia is composed of the central and local government. The central government consists of government ministries that include the Ministry of Local Government and Housing, which is the central government overseer of local level administration. There are 72 local authorities in Zambia,<sup>43</sup> of which four are city councils (Lusaka, Ndola, Kitwe,

<sup>43</sup> There were 61 for a long time until recently when the number was increased. This Study has identified six councils for closer investigation. They are Lusaka City Council; Ndola City Council; Livingstone City Council; Kalulushi Municipal Council; Chibombo District Council; and Petauke District Council.

and Livingstone). Despite the existence of provinces, councils are the tier of local government because the former are merely administrative structures.

The system of local government in Zambia is founded on the declared desire by the state to decentralise its functions in order to give power to the people, as it were. This desire is reflected in several government documents that include the Constitution<sup>44</sup> and the Public Service Reform Programme (PSRP).<sup>45</sup>

Presently, councils in Zambia are constituted in law by Section 6 of the Local Government Act of 1991. A council is a body corporate with perpetual succession and a common seal. It is capable of suing and being sued in its corporate name and with power to do all such other acts and things as a body corporate may do by law and as are necessary for or incidental to the carrying out of the functions and powers set out in the 1991 Local Government Act, Section 61. The local government system of administration in Zambia operates under a committee system. Section 31 of the Local Government Act provides that a council may establish standing and occasional committees consisting of such number of members as the council may determine for the purpose of examining and reporting any matter and of discharging functions of the council delegated to the committee under the Act. Members of the committee are appointed by the council from amongst persons who are councillors. Section 37 of the Local Government Act also provides that a committee, from amongst its members, may appoint a sub-committee for the purpose of examining and reporting on any matter.

Presently, the decision-making body of a council is the full council, which is made up of all the elected ward councillors in the town and six co-opted councillors who have been chosen to serve as representatives of the business community. These include local area members of parliament. Co-opted councillors have full voting rights except on financial issues, where they must abstain.

What is, therefore, obvious is that with the change of government in 1991 came a return to an emphasis on the separation of the political and executive functions of decision-making and management. Part III of the Local Government Act lays down the procedures relating to the constitution of a council and the rules governing the election of councillors, mayor and deputy mayor. The most significant changes were the removal of centralised political control over the appointment of councillors and civic leaders and the removal of direct party control over the day-to-day business of councillors.

Councillors (that constitute councils) are elected for a three-year period. Local members of Parliament and two representatives of traditional rulers (chiefs) are usually ex officio members of the council. Councillors then elect from amongst themselves a mayor (for city councils) or council chairman (for lower-level councils), who occupies

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<sup>44</sup> The 1996 Constitution of Zambia upholds the values of democracy, transparency, accountability and good governance. The policy of decentralisation is derived from these principles.

<sup>45</sup> The PSRP that was launched by the government in November, 1993 includes Component Three: *Decentralisation and Strengthening of Local Government*, which provides direction in the effective deconcentration of certain functions and responsibilities from the central government to the provinces and districts and thereafter devolves selected functions to sub-national governments.

office for a period of one year, renewable once. In terms of decision-making, mayors do not have executive powers, not even delegated ones. All council decisions, thus, have to be taken by the whole council unless a committee has been delegated such authority. It is noteworthy that the limited powers of the mayor restrict his/her opportunity to play a strategic role in the management of the council, a phenomenon that has caused considerable conflict between 'too active' mayors and the councillors.

The chief executive of a council is the town clerk/council secretary, who is a full-time employee of the council.<sup>46</sup> His/her job is to implement the decisions of the council and attend to the day-to-day administrative operations of the council. Councils also have directors in charge of the various units of the council. A typical council has at least eight divisions: namely, administration, legal, finance, engineering, water and sewerage, town planning, housing and social services and public health.

It is noteworthy that there are three parallel structures in the government system when one looks at the policy of decentralisation. There is the central government at the top. Below this is a two-facet local-level parallel structures: namely, (a) the provincial and district administration, on the one hand, and (b) the sub-national governments (or councils), on the other. While the first category, consisting of a provincial minister and provincial permanent secretary (at the top), is answerable to the line central government structures, the latter (the councils) are the *de facto* local government structures that, for organisational purposes, fall under the Ministry of Local Government and Housing. Thus, when one talks of the policy of decentralisation, a distinction ought to be made between these two parallel sub-national structures at the level lower than central government. This Study is concerned with councils, alternatively referred to as sub-national governments. The organisation structure of central and sub-national governments is shown in Figure 3.2.

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<sup>46</sup> Note that there is no major difference between city, municipal and district councils in terms of legislative provisions. The difference is essentially related to location and, to some extent, scale and diversity of activities. In this regard, city councils are usually larger in organisational structure and the services provided, generally corresponding to the size of the served population. Municipal councils occupy the middle range in terms of the magnitude of their ISP and the population coverage. The district council is the smallest in the hierarchy. It is usually located in a rural or peri-urban region, and its coverage usually spans across the district. Although its physical/spatial coverage may sometimes be larger than that of a city or municipal council, its population is usually sparsely scattered and smaller.

**Figure 3.2: Administrative Structure of Central and Sub-National Governments**

LEVEL	ADMINISTRATIVE	DECENTRALISED	DECONCENTRATED & SEMI-AUTONOMOUS	CO-ORDINATING BODIES
<b>NATIONAL</b>	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">             Secretary to the Cabinet ↓           </div> <div style="text-align: center;">             Line Ministries ↓           </div> </div>			<b>NDCC</b>
<b>PROVINCE</b>	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">             Provincial Permanent Secretary →           </div> <div style="text-align: center;">             Provincial Departmental Head           </div> </div>			<b>PDCC</b> (Chaired by Provincial Permanent Secretary)
<b>DISTRICT</b>	Line Ministry Officials	Councils	Health Boards Education Management Boards	<b>DDCC</b> Chaired by Town Clerk or Council Secretary

Apart from overseeing councils, MLGH also controls the National Housing Authority (NHA). The Authority has a multi-disciplinary Consultancy Division that provides technical services to government departments and quasi-government institutions, as well as to sub-national authorities on matters related to housing and infrastructure development. The Consultancy Division, which has planners, architects, engineers and surveyors on its establishment, has the capacity for planning, design and construction of water supply and sanitation services.

### **3.2 Policy and Strategies for Local Government Finance**

The main guiding policy for sub-national governments revolves around the principles of decentralisation. This policy is guided by a number of principles that include the following:

- improvement of the enabling environment for private sector growth through investments in infrastructure and human resources;
- restructuring of the delivery of infrastructure and services to enhance efficiency and sustainability; and
- removal of subsidies and the encouragement of private sector participation in ISP.

So far, the Decentralisation Policy document is yet to reach the Cabinet for consideration/approval. The following policy and strategy aspects are noteworthy with respect to the current government policy towards sub-national governments:

- Councils are empowered to mobilise resources without seeking ministerial approval.

- The Local Government Amendment Act No.30/95 has empowered councils to appoint and discipline their personnel without reference to the Minister. The Act has also abolished the Local Government Service Commission and, in its place, established Provincial Local Government Appeals Boards to facilitate decision making at the provincial level with regard to discipline and appeal cases.
- Community participation activities in the process of decentralisation have been further recognised by the government through the Public Service Reform Programme of 1993. The objective here is to provide direction and facilitate the efficient and effective decentralisation of appropriate government functions and operations from central government to the provinces and districts. Under the reform programme, a framework for planning and co-ordinating development through the National Development Co-ordination Committee (NDCC), Provincial Development Co-ordination Committee (PDCC) and District Development Co-ordination Committee (DDCC) was introduced.<sup>47</sup>

Despite the above policy and strategy initiatives, several weaknesses have been identified by the government in the current state of local government administration.<sup>48</sup> They include the following:

- Political interference by central government in the operations of institutions at the local level has continued.
- The inclusion of Members of Parliament as local councillors has created friction in councils.
- The requirement that council bye-laws should be approved by central government has hindered council operations.
- The requirement that central government determines the acceptability of council minutes, including resolutions, has also hindered local operations.
- Councils do not design programmes to propagate civic responsibilities to communities.
- There is no forum for councillors to meet and discuss issues with their electorate.
- In rural areas, councillors have no effective means of reaching their electorate due to the large size of ward areas and inadequate logistical support.

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<sup>47</sup> NDCC, PDCC and DDCC are the foundations of the hierarchy of planning and administration that were created in January 1995. They consist of councils' officers, officers of line departments and representatives of NGOs and CBOs. They are intended as mechanisms for dialogue and co-ordination among local councils, line ministries, donors and NGOs. They are envisaged as a first step toward eventual administrative and fiscal devolution to local governments. Their main function is to identify development programmes in their jurisdiction and communicate these to local level administration (both councils and provincial and district administrations) for support. Generally, these structures have not really been influential, and it is expected that their real functions, powers and authority would be better defined in the government's Decentralisation Policy Document.

<sup>48</sup> These are derived from the *Decentralisation Policy* draft document prepared by government.

- Councils have not sensitised the public on their rights to inspect council budgets, minutes and audited accounts, or to attend council meetings as provided for under the Local Government Act.
- Citizens are only involved at election time; thereafter, there is no mechanism in place to enable them to influence local affairs and hold the elected representatives accountable.
- Central and local government officers are only accountable to their appointing authorities or within their respective ministries and not to the public.
- The election of mayors/councillor chairmen by fellow councillors dilutes their responsibility to be accountable to the public in the district.
- Government and local authorities generally lack a commitment to sensitise the public regarding their civic obligation to participate in local affairs.

No formal structure for community sensitisation and awareness exists at the local level.

### ***3.3 Concrete Reforms Initiatives***

#### **3.3.1 General Initiatives**

The government has recently undertaken several major concrete reforms in the area of local government improvement. Perhaps the most comprehensive initiative in this respect is the Public Service Reform Programme (PSRP), which includes a component on decentralisation and strengthening local government. This programme has been underway since 1993 and has been the main concrete reform initiative within the field of decentralisation. The PSRP has the following objectives:

- improve government capacity to analyse and implement national policies and perform its appropriate functions;
- effectively manage the public expenditure to meet fiscal stabilisation objectives; and
- make the public service more efficient and responsive to the needs of the people.

As a strategy to achieve the above-mentioned objectives, the PSRP has identified three components:

- restructuring of the public service;
- management and human resource improvement; and
- decentralisation and strengthening of local government.

Under each of these components, the PSRP also stipulates that the following strategies must be adopted in order to achieve its objectives:

- determine the composition and size of the public service, with a view to reducing its size and transforming it to become more efficient and effective in the socio-economic development of the country;

- define and institutionalise effective management and organisational structures and systems in the public service;
- define strategic plans for each ministry, province and local authority;
- harmonise development planning and budgeting capabilities and strengthen financial control and accountability systems relating to these functions by merging the two related functions into one institution;
- identify optimum arrangements for the decentralisation of responsibilities from the centre to provinces and districts (in practice, this is expected to involve deconcentration to provinces and devolution to local authorities);
- provide management training to senior managers and trainers in strategic planning, budgeting, performance management and the management of organisational change;
- improve financial accountability and management capabilities in the public service; and
- rationalise the current staff appraisal system and design a non-confidential, goal-oriented and objective personnel appraisal system.

As can be seen from the above, decentralisation and strengthening of local government administration have been components of PSRP. Within the PSRP framework, health service delivery and education were transferred to local boards, co-ordination committees were formed at the provincial and district levels and planning and management machinery were established in 61 of 72 councils.

Another noteworthy concrete action taken in recent years in the area of infrastructure and services provision (ISP) is the Urban Restructuring and Water Supply Project (URWSP), which covers a representative group of sub-national governments.<sup>49</sup> Strategic objectives of the project include the creation of commercially-oriented water and sanitation utilities and improvements in critical urban infrastructure and services, with particular emphasis upon laying the groundwork for service improvements to the largely under served urban majority. Water supply and sanitation have been accorded the highest priority in this project because of direct links to health and productivity, the extent of the population currently un-served and the significant fixed investments currently in danger of collapse. The project also plans to encourage greater use of commercial practices, foster accountability of service providers to service consumers and manage infrastructure at the lowest appropriate level.

To achieve the above goals, the Project aims, in particular, to assist the participating urban-based sub-national governments to:

- efficiently and equitably manage existing infrastructure and services, based on what residents want and are willing to pay;
- provide incentives for employees and organisations responsible for the operation and maintenance of urban services to work in accordance with transparent and consistent performance criteria; and

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<sup>49</sup> These are Chingola, Kafue, Kalulushi, Livingstone, Luanshya, Mazabuka, Mufurila and Ndola

- foster accountability of civic planners and service providers by ensuring that key decisions on service level choices are made at the lowest appropriate level.

### 3.3.2 Initiatives in Local Government Finance

There have also been initiatives in the area of local government finance in the context of fiscal decentralisation. These are highlighted below.

*Cost-Recovery:* It is currently government policy to recover the full cost of service delivery. With the exception of rates and personal levy, sub-national governments are now, in principle, permitted to review fees and charges without the approval of MLGH. Before this amendment to the 1991 Local Government Act, fees and charges were centrally approved/determined, and the approval itself was typically either delayed or declined. Despite the above policy, the central government still exercises control on the level of fees and charges that councils may levy. In 1993, for example, the government reduced the rates proposed by the Lusaka City Council after the Council had already issued rate demands. All six sample sub-national authorities examined<sup>50</sup> in this Study reported the persistence of central government interference, through the Ministry of Local Government and Housing (MLGH). The effect of this 'interference' on the councils' budgets was adverse. Similarly, the recommendations of councils' chief officers to adjust rates upwards in line with the inflation trends are usually turned down by the councils' decision makers (the councillors), principally out of political considerations.

*Tax Rates:* The primary local tax that councils levy has continued to be the rates (tax on the value of built property). All the examined six councils' budget estimates show that the yield of the rates has been declining in real terms over the years despite substantial increases in their rates poundage (property tax tariffs). The extent to which the councils are able to collect the dues (a factor that is closely linked to the consumers' ability and willingness to settle the bills), is still weak in all the councils examined. The councils' administration of the rates has generally been weak throughout the process from budget estimation, through rate poundage fixing, to collection (see Chapter Four for more statistical details).

*The Rating Act:* The 1997 Rating Act is yet another concrete reform initiative in the field of local government finance, but one that seems to have far reaching adverse effect on some councils. The Act, by introducing more exemptions, has adversely affected the sub-national governments' resource base. The Act's most notable feature is the reduction in categories of rateable properties by granting more exemptions. Box 3.1 highlights these. From the Box, it is evident that councils that are located in agricultural areas and whose main sources of revenue are from agriculture-related economic activities (e.g. Chibombo and Petauke) would lose substantial amounts of income from rates.

#### **Box 3.1: The Rating Act of 1997**

For the purposes of this Act, and subject to subsection (1), the following property within a rateable area shall not be rateable:

<sup>50</sup> These are Lusaka, Ndola, Livingstone, Kalulushi, Petauke and Chibombo councils. These are described with some details at the end of this chapter.

<ul style="list-style-type: none"> <li>• Property in the occupation of the President in the President's capacity as Head of State;</li> <li>• Property used wholly for the operational purposes of any public utility undertaking concerned with the storage, processing or distribution of public water supplies, or the collection, treatment or disposal of water-borne sewerage;</li> <li>• Property used primarily for public worship, including property used for residential purposes by ministers of a church and nuns whether or not that property is in the same cartilage as the church, but excluding property used for social and commercial purposes in connection with places of public worship.</li> <li>• Property owned and occupied by registered charities;</li> <li>• Training centres intended for capacity building for youths, homeless and persons with disabilities;</li> <li>• Public libraries and public museums;</li> <li>• Cemeteries and crematoria;</li> <li>• Military aerodromes, including the buildings on them and their cartilage;</li> <li>• Property comprising land used solely by a full-time educational institution, or for sporting purposes by that educational institution;</li> <li>• Any railway track owned by the Zambia Railways Board or the Tanzania-Zambia Railway Authority, including rails and sleepers, together with all earth-work, ballast, fittings, fastenings and devices installed in connection with track or train operation, bridges, culverts, inspecting and ash pits, signal installations, centralised train control gear, rolling stock weighbridges, locomotive and train watering installation, cooling and fuelling plants, passenger transmission lines, poles, pylons, transformers and switch gear used in connection with track and train operations, whether situated within or without buildings, if they are used for normal working of the railway;</li> <li>• Premises of a mission, which are owned by a mission and are the residence of the head of a mission, or chancery of that mission; or, such other body granted diplomatic immunities and privileges, as set out in the First Schedule to the Diplomatic Immunities and Privileges Act: Provided that premises other than those specifically mention in this paragraph which are owned by a mission in Zambia shall only be exempt if similar premises owned by a Zambia mission in that Country are exempt from rates in such Country;</li> <li>• Premises on which buildings, plant and machinery used for mining or mineral processing are located;</li> <li>• Premises on which plant and machinery used for power generation, transmission and distribution are located;</li> <li>• Premises on which plant and machinery used for telecommunication purposes are located;</li> <li>• Machinery or plant which is in, the rateable property solely for the purpose of manufacturing or trading operations;</li> <li>• Public roads and railways;</li> <li>• Agricultural land and buildings which are used for agriculture including dwellings houses situated thereon;</li> <li>• Premises which are used for sport or recreational facilities, race course parks and pleasure gardens; or</li> <li>• Such other property as the Minister may, by statutory instrument, prescribe.</li> </ul>
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**Source:** *The Rating Act, 1997.*

*Fees and Charges:* Full recovery of service costs from all but the poorest consumer groups is recognised in principle by the government as an appropriate longer term charging objective for water and other ISPs. In the area of fees and charges, despite this stipulated policy, the government still controls the level of fees and charges that councils may levy. This has introduced a serious policy contradiction: the government policy position is that councils must be self reliant, but, at the same time, they are not allowed to charge economic rates that are considered to be 'politically inappropriate.' This implies that councils should continue to subsidise the provision of services to their residents.

*Value of Land:* Another important post-1991 change that has significant fiscal implications for sub-national governments regards the value of land. The 1975 'watershed speech' by the President declared that, with effect from 1st July 1975, land would have no value and, therefore, would not be rateable. Consequently, income accrued to councils from the land element was lost. Moreover, the impetus to develop land was lost as the punitive measure of levying rates on land was no longer in place. This retarded development and growth of the rateable value on which councils could

tap the rate income. Since the coming to power of the new government, this edict has been reversed, and councils are now at liberty to place value on land within their jurisdictions as a tradable commodity. The capacity of councils to demarcate land and implement cost recovery service charges has been reported as being very weak in all the six councils examined in this Study. Thus, this policy initiative has not yet translated into an effective income source for most sub-national governments in Zambia.

*Fixing of Maximum Personal Levy Amount:* The Personal Levy as amended by the Personal Levy (Amendment) Act, 1994 fixed the minimum leviable amount at K300,000 per annum and the maximum levy payable at K15,000 per annum. This fixed threshold has been perceived as being unfair to councils, given the prevailing economic environment in which they have to operate. The maximum threshold does not allow for elasticity in the personal levy income and is, thus, a major constraint to sub-national governments' fiscal improvement.

*Transfer of Motor Vehicles Licensing from Councils:* The central government has transferred the function of motor vehicles licensing from the councils to the Road Traffic Commission. Consequently, councils have lost one of their sources of revenue, in that what is collected is no longer utilised directly by the councils. Although council areas have benefited in recent years from the National Roads Fund in terms of grants for road rehabilitation, the money is rarely transferred directly to sub-national authorities.

*Minerals and Timber Levy:* The 1997 government budget gave powers to the Ministry of Finance and Economic Development to collect a mineral and timber levy, which ordinarily should benefit the local authorities in which these mines and timber plantations are found. This has had adverse effect on councils' revenue bases.

*Government Decision to sell Council Houses:* The government decided in 1996 to sell council houses to sitting tenants.<sup>51</sup> The immediate impact of this decision was that councils lost one of their major sources of income. On average, housing income accounted for 30 percent of total revenue of urban-based councils. Consequently, the councils' financial position has been undermined, especially since all their housing stock has been sold, by presidential decree, at below market prices. In many cases, the President visited the residences and, particularly during the election year (1996), directed the councils to give them away at sub-market prices. Equally noteworthy, most council house tenants used to pay water bills at the same time they were settling their rent arrears. Now, they are paying neither rent, nor electricity bills, especially since the central government has directed that no one should be evicted from council houses. For the most part, sitting tenants in the sold council houses have paid only a nominal fraction of the value of the houses, and the government has been shifting the due date when councils could move in and press for the settlement of the outstanding amounts. The government in late December 1998 decided once again to postpone the

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<sup>51</sup> This decision is regulated by Government Circular No. 2 of May 1996. The explanation given by the government to sell the houses was that people should be empowered to own property. As an extension to this policy of home ownership, the President in early 1999 introduced the 'Presidential Housing Initiative' that entailed the construction of medium- to low-cost houses throughout the country for ultimate purchase by private citizens. Construction started in February 1999 in Lusaka.

due date for payment of the purchase price for the council houses to 31 March 1999, much to the displeasure of councils. Although councils would still levy rates on these properties, it is important to realise that the income to be derived will be much less than the current rental income because of the ability and willingness of the new, relatively poor, tenants to afford the rates. Moreover, many of the council houses must first be valued and titled before an assessment for rates can be effected, and yet the councils have inadequate personnel and resources to do this exercise in a timely and efficient manner.

### 3.4 Division of Tasks between Central and Sub-national Governments

The range of services provided by central and sub-national authorities are given in Figure 3.4. It is noteworthy that sub-national authorities in Zambia are agents of the central government as far as the delivery of services to their local communities is concerned.

FIGURE 3.4: SHARING OF RESPONSIBILITY BETWEEN CENTRAL AND SUB-NATIONAL GOVERNMENTS

SERVICE	CENTRAL GOVT.	SUB-NAT. GOVT.	SHARED
<b>General Public Services</b>			
• Administration			
• care and maintenance of parks, gardens, cemeteries, etc.			
• physical (town/city) planning			
• traffic control, car parking and road safety			
• provision and maintenance of fire services			
• issuing of trade licenses			
• tax and levy collection;			
• registration of births, deaths marriages, and voters			
• Land Allocation			
<b>Education</b>			
• Pre-school			
• Primary			
• Secondary			
• Tertiary			
<b>Health</b>			
• Hospitals			
• Clinics			
• Rural Health Centres			
• sewage disposal			
• Environmental health (e.g. malaria controls)			
• Social Security and Welfare			
<b>Housing</b>			
• construction and management of housing;			
<b>Community amenities</b>			
• public transport			
• inspection of hotels, bars restaurants and abattoirs			
• meat and food inspection			
• health education			
• prevention and abatement of public nuisances			
• provision of public conveniences and ablution facilities			
• maintenance of parks, gardens, cemeteries			
• construction and management of markets			
• management of resettlement schemes;			
<b>Economic Services</b>			
• water supply, treatment and reticulation			
• feeder road construction and maintenance			
• Solid waste management			
• refuse collection and disposal			
• street lighting in urban areas;			
• Electricity production and supply			
• commercial undertakings (shops, bars, rest-houses, farms, etc.			

A closer look at some of the salient features of the above division of responsibilities is quite instructive, since it highlights some of the problems with the present division of tasks.

### 3.4.1 Appropriateness and Overlap of Responsibility Allocation

Firstly, at the macro level, it is clear that the central government has allowed councils, by legislation, to be in charge of all the above functions. It is noteworthy, however, that the demarcation of responsibility within the government system is not very clearly defined in terms of control/management and actual delivery by the various stakeholders. There is considerable degree of overlap and very little co-ordination among the role players; these factors have significantly compromised efficient and effective delivery of services to consumers. Indeed, this Study has revealed several institutional weaknesses that are principally caused by the prevalent fragmentation of administrative and operational responsibilities between numerous institutions and agencies. These problems are largely explained by the evident weak commitment to the co-ordinated implementation of the policy of decentralisation.

Responsibility for the development and maintenance of water supply systems is perhaps the most noticeable area that reveals the existing fragmentation amount several government ministries and departments, on the one hand, and sub-national governments, on the other. The water and sanitation sector in Zambia currently include the following poorly co-ordinated actors:

- The sub-national authorities, under the aegis of the Ministry of Local Government and Housing, are responsible for water and sanitation schemes in their areas. However, in some urban and rural townships, this responsibility is undertaken by the Department of Water Affairs (DWA) for water supply and the Ministry of Works and Supply for sewage and sanitation. DWA's emphasis is the development of a policy of cross subsidisation, which will ensure water provision for low-income areas.
- The Department of Water Affairs in the Ministry of Energy and Water Development is responsible for water resources data planning and conservation and for the provision of piped water supply.
- The Water Development Board is a judicial body chaired by the Director of DWA. It is responsible for administering the Water Act, which empowers it to grant water rights and allocate water resources.
- The Ministry of Agriculture, Food and Fisheries.
- The Ministry of Works and Supply has responsibility for the provision, operation and maintenance of water, sewage and sanitation services in government institutions and buildings (e.g. schools, office buildings, etc.).
- The Ministry of Health (through its Health Inspectorate) is responsible for monitoring water source and quality, providing community health education, enforcing environment health regulations and monitoring discharges from sewerage works.

- The Ministry of Community Development and Social Welfare is responsible for promoting self-help and sanitation programs in rural communities.
- The Ministry of Labour and Social Security promotes local self-help programmes in rural communities in relation to the provision of wells, boreholes and latrines.
- The functions of the Ministry of Environment and Natural Resources include the conservation of water resources. The government has also passed the Environmental Protection and Pollution Control Act of 1990, whose main purpose is to provide for the protection of the environment and the control of pollution. Various NGOs compliment the efforts of the government ministries and departments in water supply delivery.

#### 3.4.2 Role of Donors and NGOs

One issue worth noting is the evident differences in the interpretation of the concept and principles of decentralisation by the different providers/ministries above. Unless there is effective co-ordination in the models of decentralisation that are adopted by the different providers of services and their speed of implementation aligned to what takes place elsewhere in the same field, the needed harmonisation of efforts would be foregone.

Apart from the above, a number of donors and NGOs work with the government either directly, or by funding the delivery of infrastructure services. The donors in the water and sanitation sector include GTZ, NORAD, JICA, the EU, Irish Aid, World Food Programme, the World Bank, African Development Bank, WHO, UNICEF, FINNIDA, CIDA, ODA, SIDA, DANIDA, USAID and UNDP. The NGO group includes Irish Aid, Oxfam, World Vision, Care International and Africare. Important considerations at this level include the degree to which donors in the water sector operate within the institutional framework set by the central government and whether they have effective co-ordination and collaboration, on the one hand, amongst themselves and, on the other with the local government authorities under whose jurisdiction they operate. A related issue is whether the close liaison between donor-supported projects and some NGOs has taken into full consideration the specific plans and priorities of the local authorities.

A clear policy framework in support of ISP is generally lacking (for example, the absence of clearly articulated water and sanitation policy and standards, the non-approval of the Decentralisation Policy that has been pending for some time now, etc.). This has allowed donor agencies and NGOs to set parallel structures in ISP without an effectively articulated obligation to operate within the plans and priorities of the sub-national authorities. The absence of comprehensive and bankable plans for ISP also complicates the co-ordination of services provision by actors, including donors. Against this background, a clear water and sanitation policy is needed to complement the efforts of actors already involved in the field and to clarify their roles.

#### 3.4.3 The Capacity of the Service Provider

The decentralisation of ISP to sub-national governments is a positive policy stance that facilitates a closer proximity between service providers and beneficiaries. The closer the provider to the beneficiary communities, the more likely the special needs of the

target group are to be recognised and appropriately addressed. Different users (e.g. rural as opposed to urban communities) demand service of varying quality, and their *ability* and *willingness* to pay also vary. For example, extending to low-income groups technologically advanced water reticulation system or capital-intensive transport options that are management-intensive and dependent on expertise that is expensive and not readily available locally often results in alienating community participation in their maintenance. This is an unsustainable and ineffective ISP approach. Because inappropriate ISP options are often adopted in Zambia, the poor usually access fewer infrastructure services and paradoxically pay higher prices than do their more privileged counterparts.<sup>52</sup> The above realities underscore the importance of devolving service delivery to providers that are lower than the central government.

Notwithstanding the merits of a decentralised approach to ISP, the biggest challenge that presently obtains in Zambia regards the sub-national authorities' fiscal incapacity to finance what has rightly been devolved to them. Chapter 6 of this Report gives details of the financial problems that face sub-national governments in the country, a phenomenon that has introduced considerable stress to ISP. Under the circumstances, contracting out service provision to private firms has been suggested as a possible option if sufficiently reliable flows of funding can be made available to ensure regularity of service. The role of the private sector in ISP is discussed with some detail in Chapter 6.

### **3.5 The Sample Sub-National Governments**


In the light of the issues discussed above, what is the standing of sub-national authorities in Zambia? This analysis of fiscal decentralisation in Zambia draws its data principally from the experience of six representative councils that have been selected for in-depth examination. The sample councils are described below.

#### **3.5.1 Ndola City Council**

The Ndola City Council (NCC) is one of the largest local authorities in the country and employs 1,925 workers. Its Council consists of councillors representing 25 wards, and it is headed by the Mayor. The Council Secretariat is headed by the Town Clerk. The Council currently has seven departments, briefly described below.

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<sup>52</sup> For example, poor communities often pay higher prices than their counterparts that are connected to piped water systems. The cost to the former category is worsened by the fact that, to the degree that their source of water is often not safe, they have to meet additional costs in medical expenses resulting from preventable water-borne diseases.

<b>THE CITY COUNCIL OF NDOLA (1997)</b>	
<b>Population:</b>	Total:393.000
<b>City Council expenditure:</b>	Total: 5.884 mill K of which ISP-provision:4.743 mill ISP-expenditure per inhabitant:12.068 K
<b>City Council revenue:</b>	Total: 4.777 mill. of which local own taxes: 44.6 % Government transfer per inhabitant:1.039 K
<b>City Council staff:</b>	Total: 1.925 No. of staff per 1.000 inhabitants: 4.9
<p><b>Economic basis:</b> Copper-mining, agriculture</p> <p><b>Geographical area:</b> sq.km. Ndola is located in the Copperbelt province, savannah</p> <p><b>Major Town(s):</b> Ndola town ( inhab.)</p> <p><b>Special characteristics:</b> Ndola has many challenges associated with downsizing and privatisation of the copper-mines (until recently mines provided ISP)</p>	
	

*Administration Department:* The Administration Department supports all the other departments and co-ordinates their activities. In this regard, it is responsible for maintaining discipline, recruitment and maintaining staff welfare. It is composed of the Personnel Section, Public Relations Section, Committee Section, Central Registry Section, Council Police and Printing Section

*Public Health Department:* This Department provides curative and preventive health care to residents. The Council operates 20 clinics that provide curative services. NCC operates two clinics as maternity delivery points. All general ailments are attended to at the clinics, while complicated cases are referred to Ndola Central Hospital and Arthur Davison Hospital. All clinics undertake child health programmes for immunisation of children against killer but preventable diseases, nutritional surveillance and growth monitoring. The department also has an environmental health inspectorate section that provides refuse collection and disposal, street cleaning and control of malaria and rabies. In addition, inspection of food establishments such as restaurants, butcheries and bakeries is done by the Environmental Health Inspectorate. Public places of assembly such as markets, cinema halls, schools, hospitals and hotels are also inspected to determine their suitability for human habitation.

*The Water And Sewerage Department:* The department is composed of the Water, Sewerage and Laboratory Sections. The prime function of this department is the provision of potable water and sewerage to the people of Ndola. This is achieved through the following:

- four water purification plants i.e. Kafubu, Itawa, Misundu Stage I and Misundu Stage II;
- a water distribution network extending approximately 500 km and covering almost the entire City;
- 14 service reservoirs;
- three sewerage treatment plants and related networks;
- water and waste-water quality monitoring; and
- water pollution control.

*Legal Services Department:* The Legal Services Department is responsible for advising the Council on all legal matters in areas that include litigation, issuance of trade licences, allocation of land, etc.

*Finance Department:* This is one of the key departments in the activities of the Council. The Finance Department is responsible for the collection and disbursement of Council revenue. It is responsible for identifying sources of revenue on behalf of the Council and ensuring that funds are put to the optimum use. It is also a focal point in liaison with all financial institutions on behalf of the Council, be they local or international. Among the main sources of revenue for the Council are personal levy, rates, house and shop rents, service charges and water and sewerage charges. The main expenditure for the Council currently constitutes payments of wages and salaries, creditors and recurrent expenditures.

*Engineering Services Department:* The Engineering Services Department is the largest Department of the Council and is responsible for ISP. The department is also responsible for ensuring that the City develops in conformity with acceptable legal standard. The department's functions include the following:


- developing and maintaining the road network within the City of Ndola;
- identifying and developing idle land in the City;
- granting building and planning consent within the City;
- maintaining and providing services related to cemeteries, grass and tree cutting;
- maintaining nurseries/parks, gardens and street lighting; and
- executing various capital projects within the City.

*The Department Of Housing And Social Services:* NCC until recently had the largest stock of housing units in the country (about 20,000 units). The Department of Housing and Social Services had the enormous task of administering the stock. However, with the sale of council houses in 1996, the focus of the department has shifted to other areas of concern:

- administration of all markets within the City of Ndola;
- provision of library services;
- provision of community development activities that include sports and recreation, cultural activities, extension services, youth skills training, adult literacy and women programmes;
- settlement improvement/upgrading; and
- supervision of site and service areas, including demarcation and allocation of plots.

### 3.5.2 Petauke District Council

Petauke District had a population of 249,542 people in 1994. The District is the second most populated in the Eastern Province after Chipata and has a population density of 30.5 per square kilometre. The current population annual growth rate of 4.8 percent makes Petauke one of the fastest growing districts in Eastern Province. It is estimated that 83 percent of the population in the District is engaged in agriculture. The major crops grown are maize, cotton and groundnuts.

<b>THE DISTRICT COUNCIL OF PETAUKE (1997)</b>	
<b>Population:</b>	Total: 249,542 inhab
<b>City Council expenditure:</b>	Total: 346.6 mill K
<b>City Council revenue:</b>	Total: 344.7 mill K of which local own taxes: 3.7 % Government transfer per inhabitant: 160 K
<b>City Council staff:</b>	Total: 128 No. of staff per 1.000 inhabitants: 0.5
<b>Economic basis:</b> Agriculture (more than 80%)  <b>Geographical area:</b> 7,724 sq.km. Petauke is located in the Eastern Province  <b>Major Town(s):</b>   <b>Special characteristics:</b>	

The Petauke District Council (PDC) was established in 1980. Its predecessor, the Petauke Rural Council, was created by the Local Government Act, Cap. 480 in 1965. The delimitation of PDC wards conducted in April 1997 increased their number from sixteen (16) to twenty (20). After the December 30, 1998 local government elections, the membership of the Council became twenty Councillors elected by Wards, three Members of Parliament and two Chiefs' representatives, totalling twenty-five members of Council.

The Council has four departments: Administration, headed by the Deputy Council Secretary; Finance Department, headed by the District Treasurer; the Public Works Department, headed by the Director of Works; and the District Planning Unit, headed by the District Planning Officer.

### 3.5.3 Lusaka City Council

Lusaka came into being in 1905 when a rail siding was established there around which farmers began to settle. On 31st July 1913, the Lusaka Village Management Board was established, and, in 1929, the Board advanced to Township status. In 1930, the then Northern Rhodesia Government appointed a town planning expert to select a suitable site for the construction of the new capital of the country, which at that time was in Livingstone. Lusaka was selected because of its central position, abundant water supply and good climate, as compared to sites in other parts of the country. In May 1934, Lusaka became the capital of Northern Rhodesia, and two years later, the Lusaka Management Board took over the administration of the new capital.

Lusaka became a Municipal Board and a full Municipal Council on 1st January 1953 and 1st March 1954, respectively. On 9th September 1960, Lusaka was elevated to city status by Her Majesty Queen Elizabeth II, by Royal Charter.<sup>53</sup>


With the coming into operation of the Local Administration Act No. 15 of 1980, the City Council of Lusaka became the Lusaka Urban District Council on 1st January 1981 in accordance with Sections 3 of the Act. Thus, the geographical boundaries of the City Council of Lusaka became the boundaries of the Lusaka Urban District Council. All development agencies within this geographical area fell under one authority for the purpose of effective and co-ordinated local administration.

In 1991, Lusaka Urban District Council reverted to its old name of Lusaka City Council (LCC). This has remained so to date. The Council has a membership of 39 Councillors consisting of the Mayor, who is the Chairman, and other elected and nominated Councillors, including members of Parliament.

LCC occupies an area of 375 square kilometres. The Lusaka City Council currently consists of seven departments that are headed by directors. The Council has 2,700 workers on its establishment. The departments of LCC are described below.

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<sup>53</sup>Booklet; Lusaka celebrates its diamond Jubilee, pg. 2.

<b>THE CITY COUNCIL OF LUSAKA (1997)</b>	
<b>Population:</b>	Total: 1.016 mill inh
<b>City Council expenditure:</b>	Total: 8,512 mill K of which ISP-provision:5,309 mill ISP-expenditure per inhabitant: 5,225 K
<b>City Council revenue:</b>	Total: 11,198 mill K of which local own taxes:30.0 % Government transfer per inhabitant: 278 K
<b>City Council staff:</b>	Total: 2700 No. of staff per 1.000 inhabitants: 1,3
<b>Economic basis:</b> Administrative Capital  <b>Geographical area:</b> 373 sq.km. Lusaka is located in the southern central part, savannah  <b>Major Town(s):</b> Lusaka  <b>Special characteristics:</b>	

*Administration Department:* The Administration Department deals with staff recruitment, promotions, training and discipline and ensures that conditions of services are followed by all departments.

*Finance Department:* The Finance Department deals with financial matters of the Council (revenue/debt collection, maintenance, disbursement through payment of material procured, machinery and payment of salaries, etc.).

*Housing and Social Services:* This department deals with the provision and management of all Council housing stocks for both the general public and members of staff. The Department is also in charge of controlling the construction of site and service housing developments and the upgrading of squatter settlements. The Department also provides community development activities such as social clubs and educational activities through the provision of pre-school education, home economics, tailoring, carpentry training of maids and nannies, library services and social welfare.

*Legal Department:* The Legal Department is in charge of legal matters of the Council. The Department also issues licences for trade, firearms, dogs, etc.

*Engineering Department:* This Department takes care of electrical works in the City, road construction and maintenance, construction of Council buildings, parks, gardens and fire services.

*Public Health Department:* This Department takes care of environmental issues and diseases-related activities. It is also responsible for the maintenance of good sanitation through garbage collection and through combating seasonal diseases such as cholera, dysentery, diarrhoea, malaria, etc.


*City Planning Department:* The Department is involved in the planning of the City and demarcation of land for offer to would-be developers. The department's other activities include the control of structural developments in the City.

#### 3.5.4 Livingstone City Council

The city of Livingstone, with a population of about 120,000 inhabitants, is situated 500 kilometres south of Lusaka. Livingstone was established as a village in June 1904 at the old drift site along the Zambezi River, some 11 kilometres away from the present town. Livingstone is probably the most well known town of its size in Africa. This is due to its geographical location, it being the seat of the famous Victoria Falls, once the most popular gateway to the South, and its tourist attraction.

The town was run by the Village Management Board until 28th April 1938, when it was elevated to the status of Municipality, being the first in the country at that time. On 4th September 1996, the Government of Zambia conferred full city status on Livingstone, and the title of Livingstone changed from Municipal to City Council.

Livingstone City Council has a traditional form of Government with a Mayor, Deputy Mayor, Aldermen and elected Councillors at its helm. The City Council consists of 20 Councillors, from whom, under the terms of Local Government Act, the Council elects the Mayor and the Deputy Mayor annually.

<b>THE CITY COUNCIL OF LIVINGSTONE (1997)</b>	
<b>Population:</b>	Total: 120,000 inhab
<b>City Council expenditure:</b>	Total: 1,910 mill K of which ISP-provision: 1,052 mill ISP-expenditure per inhabitant: 8,767 K
<b>City Council revenue:</b>	Total: 1,978 mill K of which local own taxes: 27.2 % Government transfer per inhabitant: 1.700 K
<b>City Council staff:</b>	Total: 823 No. of staff per 1,000 inhabitants: 6.9
<p><b>Economic basis:</b> Tourism, agriculture</p> <p><b>Geographical area:</b> sq.km. Livingstone is located in the south at the boarder to Zimbabwe</p> <p><b>Major Town(s):</b> Livingstone (120.000 inhab.)</p> <p><b>Special characteristics:</b> Gateway to the south, Tourist attraction of the Victoria Falls of the Zambezi river</p>	
	

Councillors serve for a three-year term of office and may offer themselves for a re-election provided they continue to be eligible in conformity with the Local Government Act. There are twenty (20) Wards in the Municipality area of Livingstone.

There are about 823 employees under the Livingstone City Council. This labour force has been found to be too bloated, and plans are underway to reduce its size to manageable levels. However, this is being hampered by lack of financial resources.

The affairs of the Council are served by five standing committees namely; Finance and General Purposes Committee, Plans and Works Development Committee, Establishment Committee, Public Health Committee and Trades and Licensing Committee.

The committees meet on a regular basis, and their recommendations and resolutions are considered and adopted by the Council in open session at its monthly meetings. Six (6) specialised departments, headed by directors, operate under the control of the Livingstone City Council. The Principal Officer and Chief Officers attend all meetings of the Standing Committees. Chief Officers also attend Council meetings in their capacity as Heads of Department but do not participate in the proceedings unless specifically requested to do so. The overall administrative and executive functions of the Council are exercised by the Town Clerk's Department. The departments of Livingstone City Council are described below.

*Administration Department:* The department of Administration is headed by the Director of Administration. The main functions of the department are as follows:

- co-ordination of duties, work and responsibility of all departments;
- serve as link between the Council, the central government, parastatal bodies, and other sectors of the society;
- provision of professional advice to Council;
- preparation of agendas for Council standing Committees; and
- co-ordination of both general, parliamentary and local government elections in the district.

*Public Health and Social Services Department:* The main functions of the department are as follows:

- refuse collection and general cleanliness of the City and its surroundings;
- provision of social amenities and recreation such as sport;
- allocation of houses;
- settlements;
- council markets; and
- pest and rodent control and quality control.

*Department Of Town Planning and Engineering Services:* The main functions of the department are as follows:

- allocation of plots;
- maintenance of roads, cemeteries and parks, Council buildings
- maintenance of Council vehicles;
- provision of Fire Services.

*Department Of Finance:* The Department's functions include the following:


- collection of Revenue;
- control of finances; and
- preparation of Council budget.
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*Legal Department:* The Department handles all legal matters such as litigation, preparation of documents such as title deeds and contracts, etc.

*Water And Sewerage Department:* The department is in charge of water distribution and sewerage works. From 1st October 1998, the Department become part of the Southern Province's single structure in the water sector. This was following the decisions by the government to merge all departments of water operating in all councils in the province to form one commercial utility to be called the Southern Province Water Sector with headquarters in Choma.

### 3.5.5 Chibombo Municipal Council

In 1936, new Native Authorities Ordinances were passed. Under these ordinances, the Authorities were permitted to collect revenue of their own from fines, fees, bicycles, dogs, arms and game licences.

<b>THE MUNICIPAL COUNCIL OF CHIBOMBO (1997)</b>	
<b>Population:</b>	Total: 4,058
<b>City Council expenditure:</b>	Total: 126.2 mill K
<b>City Council revenue:</b>	Total: 126.0 mill K of which local own taxes: 33.2 % Government transfer per inhabitant: 7,230 K
<b>City Council staff:</b>	Total: 87 No. of staff per 1.000 inhabitants: 22
<b>Economic basis:</b> Agriculture  <b>Geographical area:</b> sq.km.  <b>Major Town(s):</b>  <b>Special characteristics:</b>	

They were also given 10 percent of the Native Tax collected from taxpayers who originally came from their areas. Native Treasuries were also set up to look after the revenue of the Authorities. It was around this time that the then Lenje Native Authority was established.

It later became Mukuni Rural Council and, some time thereafter, renamed Kabwe Rural Council, encompassing Kapiri Mponshi and Chisamba Townships as its sub-centres with Chibombo as its Headquarters. In 1991, Kapiri Mponshi was ceded from Kabwe Rural District to become a district, and what remained became Chibombo District.

On 30th May 1998, Chibombo District Council's total labour force stood at 87 distributed into its three departments as follows:

Administration:	33
Finance:	29
Works:	25

#### 3.5.6 Kalulushi Municipal Council

Kalulushi District lies in the Copperbelt Province and is located 15 km to the west of the City of Kitwe. The District covers an area of 1,115 square kilometres in size. The larger part of the District comprises ZCCM Mine Land, peasant farming areas, a few commercial farms in the Lukoshi and Mwambashi areas and the Zambia Forestry and Forest Industries Corporation Limited. Before 1977, the Council was part of Kitwe City Council. The population of Kalulushi District is estimated at about 180,000 people.



Kalulushi Municipal Council has six departments, namely, Administration, Housing and Social Services, Engineering Services, Public Health and Finance. The Council has 21 Councillors. These include the Mayor, Deputy Mayor, 18 other Councillors and one Member of Parliament. The council has five Standing Committees, namely, Finance and General Purposes; Establishment; Plans, Works and Development; Housing and Social Services; and Trades Licensing and Health.

### **3.6 Overview**

The analysis thus far has revealed that a significant level of responsibility has been extended to subnational governments by legislation. However, it is evident that the local authorities' delegated responsibilities have not been aligned to their capacity to deliver the assigned ISP. The fiscal reforms so far undertaken have also not resulted in sufficient empowerment of local authorities in the field of financial autonomy and decision-making. It appears that responsibilities have been assigned to subnational governments without corresponding fiscal discretion and sufficient resources.

## CHAPTER FOUR

### THE FINANCES OF THE PUBLIC SECTOR

This chapter provides detailed analysis of the fiscal and financial operations of local authorities in Zambia. Until 1972, the local authorities had no difficulties in fulfilling their financial obligations and had a stable financial base. Their financial strength was backed by a strong capacity to generate own revenue from a wide portfolio of assets (electricity generation, water supply, rentals, etc.) and by the transfers from central government that were based on a predetermined formula in respect of community development, housing, fire services, police, health and general grants.

Since 1973, there has been an increasingly steep decline in the local authorities' ability to deliver infrastructure and services. Factors responsible for this decline are both external and internal. Macroeconomic performance, fiscal policy management and public sector financial supervision and approval mechanisms can be identified as the most important. Critical among these is (1) the role being played by the central government in the financial framework within which the sub-national governments operate, (2) the poor management of councils and (3) poor accountability.

Specifically, the central government started changing laws, stripped the local authorities of part of their assets and transferred more responsibilities to them without compensation for the loss in revenue or providing additional financial resources required to carry out the new tasks. This practice eroded the sub-national governments' ability to generate necessary revenues and caused service delivery to deteriorate. The local authority financial situation was further worsened by the natural population growth, which increased the demand for the services, and the poor management of the declining resources within the sub-national governments themselves.

In 1973, the housing grant was withdrawn, while the amendment to the Rent Act the following year restricted the councils' ability to collect rent. Tenants were permitted to take up to three months without paying before the councils could consider evicting. This resulted in a build up of rent arrears. In 1975, land was declared valueless, with the consequence that revenue from this source was lost and the impetus to develop land diminished. All electricity supply undertakings and assets were handed over to the Zambian Electricity Supply Corporation (ZESCO) by the central government without compensation to the councils.

The central government also started defaulting on paying grants that were not withdrawn, such as the beer surtax and salaries. The Ministry of Finance and Economic Development (MoFED) does not release the grants as specified in the Act and has not acceded to the review of the rate whereby the 1976 beer surtax rates still apply. The loss in revenue has been considerable; in the past, the grant contributed 67 percent of the total budget of the councils.<sup>54</sup> Macroeconomic factors - particularly the

<sup>54</sup> Position paper on financing local governments in Zambia by the Local Government Association of Zambia, page 5

continued deterioration in real economic growth over the years and high inflation and unemployment levels - have had their toll on the poor service delivery of sub-national governments as well as on central government by way of deteriorating income levels and the purchasing power of the local currency.

The introduction of the decentralised local government system in 1980, through the Local Administration Act, transferred more responsibilities from the central government to local authorities without the requisite financial resources. Cases in point here are the introduction of housing allowances, which the councils had no capacity to finance, and the setting up of business enterprises without viable feasibility studies, most of which turned out to be loss making and a further drain on the limited council resources.

These problems have persisted in the councils to the present. Efforts to redress some of them - like the scrapping of the housing allowance - have achieved little. However, in 1992, the government funding for municipal and city councils was stopped, though experience shows that the central government has most often reversed this decision. Moreover, councils were allowed to review fees/charges (with the exception of rates and personal levy) without approval by central government; in practice, however, this has not been the case. The councils also disposed of their loss-making commercial ventures, in line with the privatisation policy.

The forced sale of council residential housing through a presidential directive in 1996 led to a further deterioration in the council's financial resources, since rent income had previously been one of their major sources of revenue. In addition, the Rating Act of 1997 brought more hardships by exempting properties in the education, agriculture, mining, electricity, telecommunications, sport and recreation sectors without any compensation. This has resulted in the loss of local revenue, particularly for councils serving agricultural and mining areas.

The degree to which these factors have hampered or improved the financial position of local authorities is examined in the sub sections that follow. The tables on which the chapter is based are provided in the Tables Annex at the end of the report. The figures reflect the cash flow position of the councils, as their accounting framework is based on a receipts and payments system. Therefore, all figures used are account figures, except where specifically mentioned otherwise.

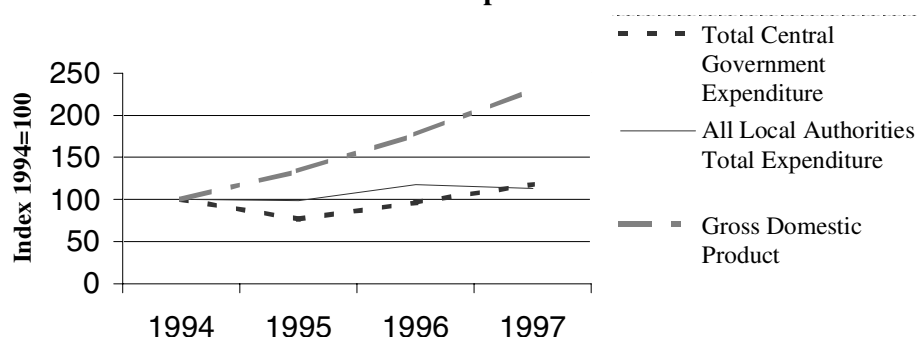
#### ***4.1 General Revenues and Expenditures***

Central government domestic revenue increased from K449,618 million in 1994 to K1,028,352 million in 1997, representing an average annual growth of 32.2 percent (see Table 4.1 in the Tables Annex at the end of this Report). Domestic expenditure increased from K757,234 million in 1994 to K893,354 million in 1997, with average growth of 4.5 percent per year in nominal terms. However, real outlays actually declined by an average of 7.3 percent with respect to revenue and 35.0 percent with respect to expenditure over the four-year period. This was due to unfavourable

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macroeconomic indicators, particularly inflation.<sup>55</sup> Sub-national governments' aggregate revenue increased from K21,661 million in 1994 to K38,829 million in 1997 in nominal terms, reflecting an average increase of 19.8 percent per annum. When inflation is taken into account, there is an actual annual decline of 19.7 percent in real terms. All local authorities' total expenditures increased from K22,077 million to K24,859 million in 1994 and 1997, respectively, which gives an average nominal annual growth rate of 3.2 percent over the same period. In real terms, however, this resulted in an average decline of 36.3 percent over the same period. Figure 4.1 shows the development in GDP in relation to central and sub-national government expenditures.

**Figure 4.1 Development in GDP, Central and Local Government Expenditures**



Source: Table 4.1 in the Annex

Consequently, the decline in both real revenues and expenditures is much higher for the councils as compared to the central government. This shows that the burden of the decline in real outlays has not fallen equally on both levels of government. It fell more on the sub-national governments. Figure 4.1 clearly illustrates this point. The central government expenditure follows the same pattern as the growth in GDP, while all local authorities' expenditures have remained fairly flat, resulting in a widening gap in the expenditures of the two levels of government. The councils have not only experienced a higher burden of declining real revenues and expenditures, but their share of revenues and expenditures to central government has also been small; despite that, they are quite an important arm of government.

The share of revenues of sub-national government averaged 5 percent of central government revenue. The share of aggregate local governments revenue compared to central government stood at 5 percent in 1994, marginally increased in the intervening two years to a peak of 9 percent in 1995 and went down to 4 percent in 1997 (Table

<sup>55</sup> Central government revenue and expenditure refer only to the domestic budget and exclude both donor inflows and external and domestic public debt service. Thus, the central government figures do not adequately reflect the total budget. The total budget figures are not made readily available by MoFED but constitute a substantial portion of the total budget. During the period, the rate of inflation averaged 39.5 percent per year. Specifically, annual inflation rates are as follows: 1994, 54.6 percent; 1995, 34.9 percent; 1996, 43.5 percent; and 1997 24.8 percent. These data are based on period averages from Macroeconomic Indicators, Sept. 1998 compiled by the Ministry of Finance and Economic Development.

4.1). The share of local government aggregate expenditures had remained flat at 3 percent over the same period. This directly translated itself into poor performance in service deliveries by all the local authorities. Their contribution to the gross domestic product has been marginal and falling. In 1994, sub-national governments' aggregate revenues and expenditures accounted for only 1 percent of GDP, which declined in 1997 to 0.8 percent for revenues and 0.5 percent for expenditures.

With the exception of 1994, all local authorities' revenue is higher than expenditure by 59 percent in 1995, 39 percent in 1996 and 36 percent in 1997. The reason for this will be explained in more detail in later sections. Suffice here to recognise three main factors in this regard. In the first place, most of the expenditures due have not been paid and, therefore, have not been highlighted in the receipts and payments accounts system that the councils use. The format of accounting does not provide for accruals. In the second place, untimely and unexpected disbursement of financial resources from the central government, reduction on spending on service deliveries, the build up of accumulated debtors position (to be examined later) all lead to a widening gap between expenditures and revenues. In the third place, statistical errors and discrepancies would also contribute to the increased variance between revenues and expenditures.

Zambia is faced with a huge debt, which stood at K10.6 billion in 1997 compared to K4.1 billion in 1994 (see Table 4.1). The debt overhang averages 197 percent of GDP and grows at an average of 31 percent per year as a consequence of three main factors, namely, continued decline in economy growth, large and continued depreciation of the domestic currency against the US dollar and continued acquisition of new debt.

This debt is almost wholly attributable to the central government. The summary amount for the borrowing of the six sample councils amounted to only K25 million in 1994 and marginally went down to K21 million in 1997, with upward swings in the intervening years (Table 4.1). Consequently, the share of all local authorities' debt to the total public debt has remained insignificant. The local governments are considered to have no capacity to borrow, and all the observed borrowing was obtained by the intervention of the central government. The debt service burden imposes a huge external financing weight on the central government such that it has not been able to meet its financial commitments to local authorities in full.

The following conclusions can be drawn from the above. In the first place, there is decline in both real revenues and expenditures by both the sub-national and central governments. However, the burden of the decline in revenues and expenditures falls heavily on local governments whose share of total public revenue and expenditure is quite small. Their contribution to GDP declined to below one percent, while their borrowing is insignificant. The severe debt service burden of the central government imposes a serious constraint on its ability to meet financial commitments to sub-national governments.

## **4.2 Sub-National Governments**

### **4.2.1 Overview of General Sub-National Expenditures and Revenue (Recurrent and Capital Expenditures)**

An examination of the expenditure patterns of all local authorities shows that, on average, 94.2 percent of their resources are used for recurrent expenditures (Table 4.2.1). The balance of 5.8 percent is attributable to capital expenditure over which the local authorities have little control. Consequently, little direct investment is taking place. It can, therefore, be said that there is a net reduction in the aggregate capital stock of the councils, as the current investment levels of less than 10 percent of total aggregate spending is below the minimum requirements to cover depreciation.

This trend is also observable in the six sample sub-national governments (Tables 4.2.1.A-E). With the exception Ndola and Lusaka city councils, Kalulushi, Chibombo, Livingstone and Petauke councils record no capital spending for the period 1994 to 1997. It remains to be seen if the planned capital expenditures in their 1998 budgets will be spent for that purpose. For example, Livingstone City Council's budgeted expenditure is expected to increase from K1.9 billion in 1997 to K3.6 billion in 1998, an increase of 86 percent, due to the planned growth in capital spending and service provision. Capital expenditure was budgeted for K90 billion in 1998, which would account for 2.5 percent of total spending (Table 4.2.1.E). Expenditures are predominately recurrent (95 percent) in the big councils and exclusively recurrent (100 percent) in the smaller ones<sup>56</sup>.

The aggregate revenue trend shows that the share of local authorities' revenues to total public central government revenues declined from 5 percent in 1994 to 4 percent in 1997. This took place after improvements of 4 percentage points in 1995. An examination of revenue trends in individual councils reveals some interesting patterns. Table 4.2.1.A shows that Ndola City Council's revenues are declining, even in nominal terms. In 1995, total revenue amounted to K5.3 billion and declined to K4.7 billion by 1997. However, there are instances where revenues increased. Kalulushi District Council is a case in point where, after the slump to K0.7 billion in 1995 from K1.0 billion in 1994, revenues increased to K1.2 billion in 1996 and declined to K1.1 in 1997 (Table 4.2.1.B). The modest recovery in 1996 was due to the house sales revenue.

The receipts and payments accounts system used by the councils does not present a true cash flow position. Faced with financial difficulties, councils opted to default on due payments to institutions like the Local Government Superannuation Fund (LASF), Zambia Revenue Authority (ZRA), Zambia Telecommunications Company (ZAMTEL), Zambia Electricity Supply Corporation (ZESCO), etc. In order to have a better idea of the extent to which the councils are indebted to suppliers, Tables 4.2.1.1.A-F show (in row 5) how much each council owes each creditor. Financing requirements (row 2), which defines total expenditure plus what is owed to creditors or suppliers less total revenue, reflects a better cash flow position of each council. This, however, should not be interpreted as defining the financing gap to meet adequate provision of service deliveries.

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<sup>56</sup> Big councils are those that have attained the city status. There are four councils in this category: Lusaka, Kitwe, Ndola and Livingstone. The remaining 68 councils are considered small.

The cash flow position of all the councils has been unimpressive, particularly in the recent past. We observe that Ndola City Council had a deficit of K6.7 billion in 1997 (Table 4.2.1.1.A), Kalulushi municipal council K0.3 billion (Table 4.2.1.1.B), Lusaka City Council K4.5 billion and Livingstone City Council K1.7 billion. Information was not available for Chibombo and Petauke District Councils. The deficit for Livingstone City Council has steadily increased since 1994, when it stood at K0.1 billion. Lusaka City Council had a surplus in both 1994 and 1995. In 1995, total revenue was in excess of total expenditure plus what was owed to creditors by K4.6 billion. Ndola City Council has oscillated between surplus and deficit from year to year, with the surplus never exceeding K1 billion.

The following observations can be made. Tables 4.2.1.A-F reveal that all the councils hold surplus revenue in the midst of poor service provision and accumulating creditors position. The main motivation for this appears to be the desire to hold money to meet unexpected administrative expenses. Any surplus revenue overflowing into the next financial year is taken as constituting part of the general revenue account of that year. The financing requirements position, as reflected by Tables 4.2.1.1.A,B,D and E, shows how grave the cash flow and the service provision position of each council is. Livingstone City Council is in the worst position, followed by Lusaka, Kalulushi and Ndola.

It is also important to note that revenues exceed expenditures in a number of years but not by as a wide margins as observed for the aggregate Tables 4.1 and 4.2.1. Considering that the six sample councils constitute about 70 percent of the aggregate local authorities' revenues and expenditures, the observed big differences might be attributable to the poor availability of data in CSO. This consequently leads to statistical errors and discrepancies. The errors and discrepancies seem unavoidable due to poor response rate on local government data and financial difficulties with respect to follow-up visits. However, the trend that the aggregate tables and individual councils portray is the same. In this respect, the aggregate tables can still play an important role.

In addition to the precautionary motive of holding money, the sample councils attribute the observed differences in total expenditures to revenues in general to the following:

- the receipts and payments budgeting format, which does not allow for accruals;
- expenditures that have not been paid;
- delays in central government approval of local government budgets;
- charges and levies after the budget has already been approved;
- unexpected grants from central government to cover increase in salaries in line with salary increase awards by central government;
- house sales revenue that could not be immediately spent; and
- the emergence of new tax payers.

All of the above tend to bring discrepancies between revenues and expenditures. Chibombo shows a generally upward total revenue trend despite upward and downward oscillations from year to year. This shows that Chibombo generated additional revenues from increased agricultural activities in the area and from the new charcoal levy.

The percentage share of all local authorities total debt service to total central government debt service is below 0.4 (Table 4.2.1). In the same way, all local authorities' borrowing remained very small, and the percentage share to total central government borrowing never exceeded 0.03. The unique feature of this borrowing is that it is procured with the intervention of the central government, as the sub-national governments are considered not creditworthy. It must be repaid in the same year, as the loans are not secured or approved by the councils.

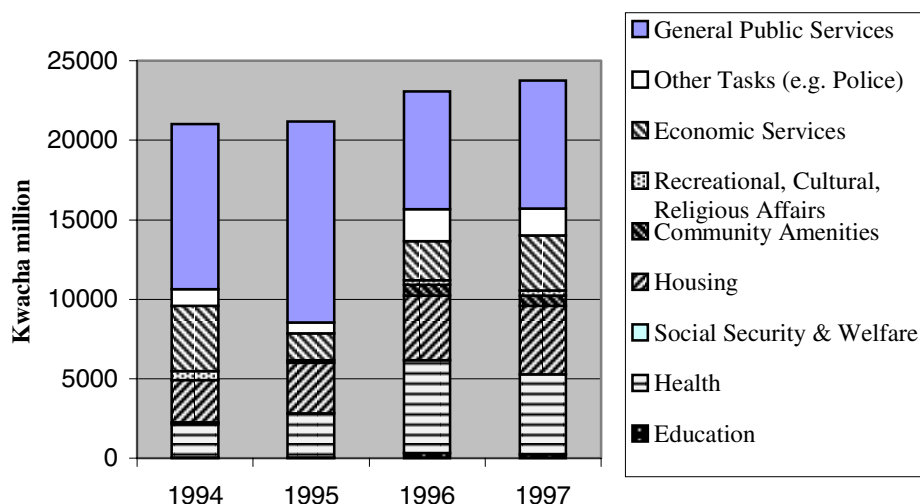
It can be concluded, therefore, that the sub-national governments' revenues remain small as a share of total government revenue. Decentralisation, in terms of patterns in expenditures and revenue, is rather limited in Zambia. The financing requirements position of the councils remains grave and exemplifies the poor state of service provisions in the midst of which councils tend to run surplus receipts and payments accounts. Moreover, local authorities borrowing is nearly non-existent, and aggregate local government figures seem to be affected by poor response.

#### 4.2.2 Sub-National Recurrent Expenditures

Table 4.2.2 in the Annex provides details of the breakdown of the recurrent expenditures for all the sub national governments. An increasing larger proportion of all local authorities recurrent expenditure (57 percent) is spent on wages. The sectoral classification also shows that general public services dominate even though the total expenditure declined from K10.4 billion in 1994 to K8.0 billion in 1997. Outlays on this sector averaged 43 percent over the four-year period (Figure 4.2.2) and largely went towards meeting administration expenses. Although we observe an increase in expenditures in the health sector from K2.1 billion in 1994 to K5.0 billion in 1997 and in the housing sector from K2.7 billion in 1994 to K4.3 billion in 1997, service provision remained poor. This is because the increases were attributable to the wage component in the two sectors. The share of the wage component in the health sector to total sectoral spending increased from 53 percent in 1994 to 56 percent in 1997, while the share of the non-wage component declined from 47 to 44 percent over the same period. The disparities were much larger with respect to housing. There the wage part increased from 39 to 54 percent in 1994 and 1997, respectively, while the non-wage part fell from 61 to 46 percent over the same period.

The rest of the expenditures are thinly spread over the other sectors in the provision of service deliveries in education, social welfare, community amenities, water, etc. (see Figure 4.2.2 below). The wage part constitutes the most important expenditure item in all the sectors with the exception of recreational, cultural and religious affairs, whose contribution to total expenditure declined from three percent in 1994 to one percent in 1997. The state of service provision, therefore, has been inadequate.

**Figure 4.2.2 Composition and Development in Local Government Expenditures**



Source: Table 4.2.2 in the Annex

The above general trend is also confirmed by looking at the sample councils (Tables 4.2.2.A-D in the Annex). Because of their increased wage expenditures, which are dominated by general public services, councils find it quite difficult to meet the demand of their communities for service delivery because less goes into service provision over time, even in nominal terms.

Lusaka and Livingstone City Councils registered a large increase in total budgeted recurrent expenditures in 1998 as compared to 1997. This was due to the planned increase in expenditure on construction of new housing following the sale of council houses. The similarities in the pattern of expenditures mean that councils face similar problems. All of the six sample councils complained about having a bloated labour force, which accounts for major part their expenditures. Some councils, such as Livingstone City Council, are in salary arrears stretching over eight month (Table 4.2.1.1.E).

To survive under such financial conditions, councils continue to scale down their services provision and default on payments that are due, as evidenced by the growth in the creditors' position in the recent past (Tables 4.2.1.1.A,B,D and E). The Livingstone and Ndola City Councils are the most severely affected. As the Local Government Association of Zambia noted regarding councils' continued existence,

"This has been possible because they have been defaulting on their payments to statutory bodies such as the Local Authorities Superannuation Fund, Zambia Revenue Authority, Zambia National Provident Fund and Workers' Compensation Fund."<sup>57</sup>

<sup>57</sup> Local Government Association of Zambia, 1998, Position Paper on Financing Local Government in Zambia, , Kitwe, p. 19

The situation is such that the average council is unable to pay terminal benefits. Councils are also unable to retire workers because they cannot afford severance packages. The situation is so desperate that in most cases councils have been disconnected from telephone services, and the power company, ZESCO, has been threatening to disconnect its service too.

In conclusion, it can be said that over 90 percent of expenditures are recurrent in nature, while the balance goes towards capital spending. Smaller councils exclusively spend their revenue on recurrent expenditure. Even though some differences have been experienced, the problems seem to be the same for all the local authorities irrespective of their size. Little or no direct investment is taking place in the provision of service deliveries.

#### 4.2.3 Sub-National Capital Expenditures

Capital spending in all the councils has been insignificant, accounting for less than 10 percent of aggregate local authorities' expenditure. With the exception of 1996, when it exceeded 10 percent, capital expenditure amounted to only K1 billion in 1994 and marginally increased to K1.1 billion in 1997 (Table 4.2.3). The table also shows that the expenditures are mainly directed towards general public services to cover the procurement of office machines, equipment and furniture. Outlays in this direction amounted to K0.5 billion in 1994 and marginally went up to K0.6 billion in 1997.

Another area that saw small levels of growth in capital spending is housing; in this sector, spending actually declined from K1.8 billion in 1996 to K0.5 billion in 1997 following the sale of council houses. There has also been a lack of direct investment in the remaining sectors of education, health, social security and welfare, community amenities, recreation, cultural and religious affairs and economic services. An examination of individual case studies confirms the same poor funding of investment (Tables 4.2.3.A-E). In the case of Ndola City Council, capital expenditure as a share of total expenditure averaged 5 percent before 1996, increased to 11 percent in 1996 and dropped to 6 percent in 1997. A large part of the increase in 1996 was due to the purchase of motor vehicles.

Moreover, Ndola City Council was the beneficiary of 218 low cost houses that were financed by the Chinese government at a cost of K1.3 billion. These housing units, after completion, were handed over to the council by central government. The central government also spent K242 million from the roads fund on rehabilitation of roads on behalf of the council. In both cases, the money was not disbursed to the Council but managed by the central government itself. Thus, that expenditure did not constitute part of local government revenue and was not accounted as such.

Capital expenditure by Lusaka City Council averaged 10 percent of its total expenditure per year but was volatile and directed to general public services. In 1996, capital spending was highest, at 15 percent, when the council became a beneficiary of K1.3 billion of commercial bank borrowing to finance a controversial housing project. This project was riddled with irregularities arising from central government intervention without council approval. Capital spending for the rest of the councils was insignificant. Thus, Lusaka and Ndola City Councils together account for 72

percent per annum, on average, of direct capital expenditures for all the councils in Zambia in the past four years.

In conclusion, it can be said that direct capital spending in all the sub-national governments has been low, with the majority of it occurring in two of the 72 councils countrywide. The spending has been directed principally towards general public services, while service deliveries in health, community amenities and economic services have lacked sufficient direct investment. Moreover, for the few capital investments that have taken place, central government has been directly involved in such investments within council jurisdictions without the involvement of the latter.

## 4.2.4 Sub-National Revenues

### 4.2.4.1 General Overview

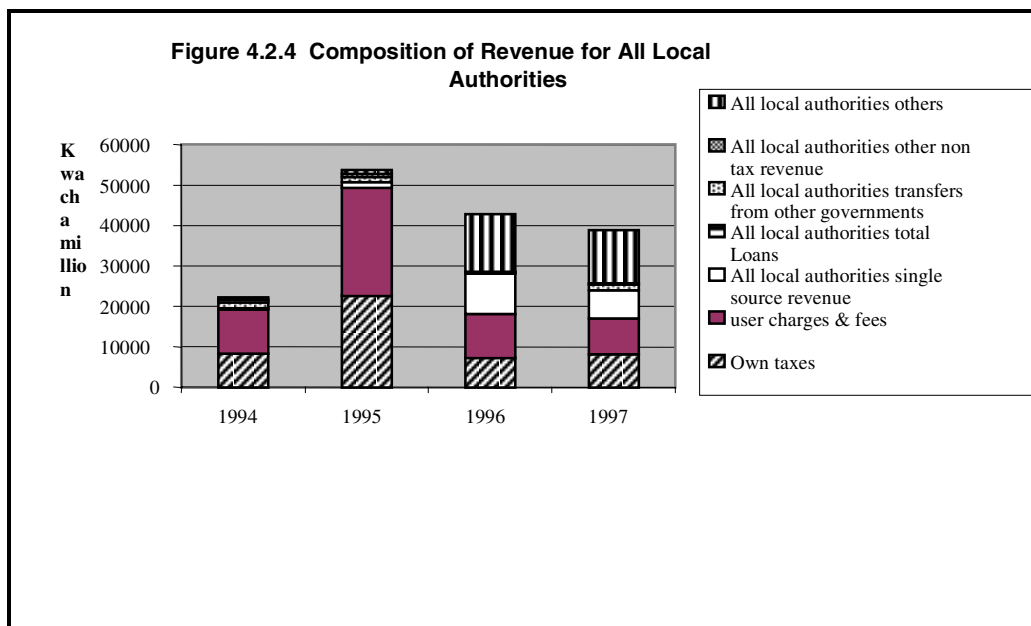
The revenue generation of the sub-national governments has increased in nominal terms. However, the increase in revenue has lagged behind the rate of inflation, resulting in a decline in real revenues. All local authorities' total revenue amounted to K21.7 billion in 1994 and increased to K38.8 billion in 1997, giving an annual average increase of 19.8 percent (Table 4.2.4). When inflation is taken into account, this yielded an annual average decline of 19.7 percent in real terms.

Tax revenue is an important source of income for the councils, accounting for an average of 29.8 percent of all local authorities' total revenue, and comes second to user charges and fees (Figure 4.2.4). Tax revenue consists of two components: shared and own taxes. Shared taxes provide the local authorities a share of the yield of certain national taxes or a share in the tax revenue collected by another local authority. There is no system of tax revenue sharing in Zambia; however, the fuel levy collected by central government was meant, to some extent, to raise revenue for the local authorities for road maintenance. Revenue sharing was also the original motivation behind some transfers of grants - such as for fire, health and police services - from the central to the local government level. Nevertheless, most of these transfers have long been stopped, and the little that is disbursed is neither based on a specific formula nor linked to any specific tax (see section 4.2.5).

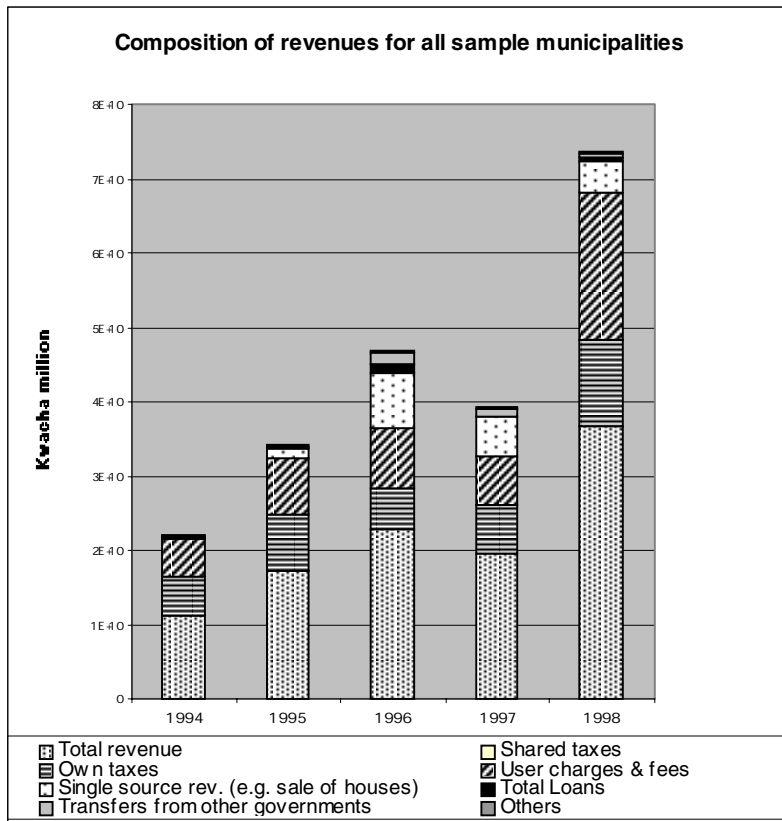
As is explained in section 4.2.5 below, specific transfers with respect to road maintenance are no longer disbursed to local authorities since the task is often undertaken directly by central government. Hence, councils do not receive those financial resources, and, as a result, such resources cannot be accounted as part of their revenue.

Another source of sub-national government revenue is 'own tax'. This refers to tax sources where the local governments have strong influence on the tax level; that is, on the determination of the tax rate, tax base and tax collection (or administration thereof). In their pure form, the own tax rates are determined by the local governments themselves. However, this strict meaning is not used here; but, rather, a tax qualifies in this categorisation if the local authority has control over at least two of the three elements. The taxes included here are those that satisfy this latter criterion; namely, personal levy, property tax (rates), licences and other levies and permits (Table 4.2.10). Aggregate own taxes for all local authorities decreased by an average of 0.5 percent over the four years period, from K8.3 billion in 1994 to K8.1 billion in 1997

(Table 4.2.4). In real terms, however, this translates into an annual average decline of 40 percent.



Source: Annex Table 4.2.4



The absence of shared taxes in Zambia does not signify a high level of decentralisation. Rather, it reflects the extent to which the central government has back-peddled on its financial obligations to the local authorities with respect to shared taxes and the transfer of mandatory grants. Some of these mandatory grants embody shared revenues that no longer accrue to the councils.

The sub-national governments' fiscal difficulties have been worsened by their poor records in revenue collection as evidenced by the build up of aggregate non-collected all local authorities' revenue. Uncollected revenue increased by an average of 90 percent annually from 1994 to 1997 on the sample of aggregate account figures from the six sample governments (Table 4.2.4.Sup). The largest single contributor to uncollected revenue is 'own taxes,' whose average contribution to total uncollected revenue stood at 66 percent. This is followed by the user charges and fees at an average of 17.8 percent, transfers from central government at an average of 7.7 percent, and other types of revenue at an average of 8.5 percent.

Despite collection problems, charges and fees emerge as the largest source of all local authorities revenue (Figure 4.2.4). Charges and fees - at K11.0 billion and K8.9 billion in 1994 and 1997, respectively - accounted for an average of 37.3 percent of all council revenues per year. However, the contribution of this revenue source registered an average decline of 4.7 percent in nominal terms and 44.2 percent in real terms over the same period. An examination of developments in the sample councils (see Tables 4.2.4.A-D) also confirms the same picture. Significant changes occur from year to year, and these are more pronounced and unpredictable for the smaller councils.

The contribution of tax revenue in the Kalulushi Municipal Council declined from 53 percent in 1994 to 39 percent in 1998, while it declined for Lusaka City Council from 69 percent in 1994 to 31 percent in 1998. With the decline in the contribution of tax revenue, the councils sought recourse, to a limited extent, by increasing user charges and fees. The contribution of user charges and fees, on average, increased from 31 percent in 1994 to 56 percent in 1998. However, in the intervening years, the revenues have been on the decline. This is also true for the rest of the other councils.

The 'single source' revenue has not been a significant source of income until the advent of the sale of council houses in 1996, when it contributed an aggregate of 16.5 percent of all local authorities' total revenue, up from 2.5 percent the previous year. Since then, the revenue source has been on the decline. The other revenue sources (aggregate loans, transfers from central government and others) have been insignificant, together contributing an average of 5.6 percent to aggregate revenue. By the end of 1997, aggregate loans accounted for 0.1 percent, transfers 2.8 percent and others 21.3 percent.

The "others" category covers miscellaneous receipts from the return of empty drums, supply of black soil, water re-connection fees, filling of water tanks, toilet fees, parking fees, fire drills, tree cutting, burial spaces, legal bailiffs fees and numerous other small receipts. The observed increase in the contribution to aggregate revenue in 1996 and 1997 is due to the differences in accounting system between the local governments and Central Statistical Office. The "others" revenues emanating from new charges (such as charcoal fees) have been placed under user charges and fees in individual local

authorities. However, this appears in other councils under the aggregate tables, which increased in the wake of the councils' efforts to generate revenue from new sources.

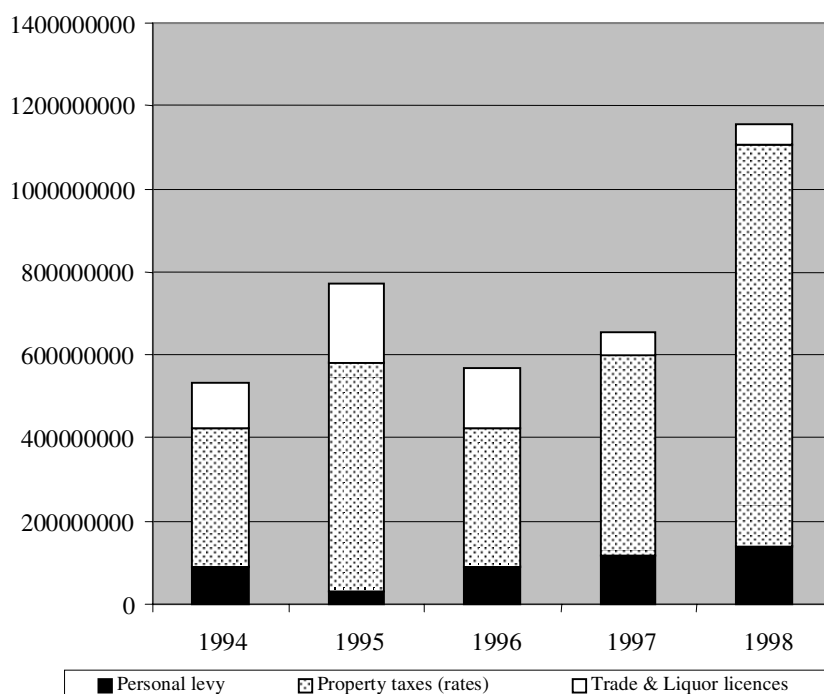
In conclusion, it is noteworthy that while there has been an increase in aggregate local authorities' revenue, the rise has not been able to match the rate of growth of inflation. The major source of revenue is user charges and fees followed by tax revenue in the form of own taxes. There is lack of shared taxes in Zambia because of the inability of the central government to transfer mandatory grants and develop a framework of sharing taxes for functions undertaken by the councils on the central government's behalf. This has contributed to the poor financial and management position of sub-national governments.

#### *4.2.4.2 Specific Types of Sub-National Tax Revenues*

Sub-national governments' tax revenue consists of personal levy, property tax (rates) and trade and liquor licences. Personal levy is a tax on income and, therefore, is based on formal sector employment and self-employment in the council areas. Rates are a tax on property, and taxable property consists of residential and commercial buildings in a given council area. Trade and liquor licences provide a tax on retail, wholesale and manufacturing operations, and they are based on the number of dealers in each category. The establishment of the tax base and tax collection is determined by the local authorities for all the taxes (Table 4.2.10). The determination of the tax rate for the personal levy and trade and liquor licences is done by the central government through an act of parliament, while the determination of the property tax rate is the responsibility of the local authorities, subject to approval by the central government. The methods by which the rates are established are not known.

Tax revenue remains an important source of income for the local authorities, contributing an annual average of 28.6 percent of all local authorities' revenue. It can be observed from Table 4.2.4.1 that levies and permits are the largest component of all local authorities' tax revenue, accounting for an average of 47 percent of aggregate tax revenue in the period 1994 to 1997. In 1994, all local authorities' levies and permits tax stood at K3.7 billion and declined to K3.5 billion in 1997. Property tax came in second with a contribution of 40.1 percent, and personal levy was in the third position at 12.0 percent during the same period.

**Figure 4.2.4.1.Sup Specific Types of Tax Revenues  
Sample Local Governments**

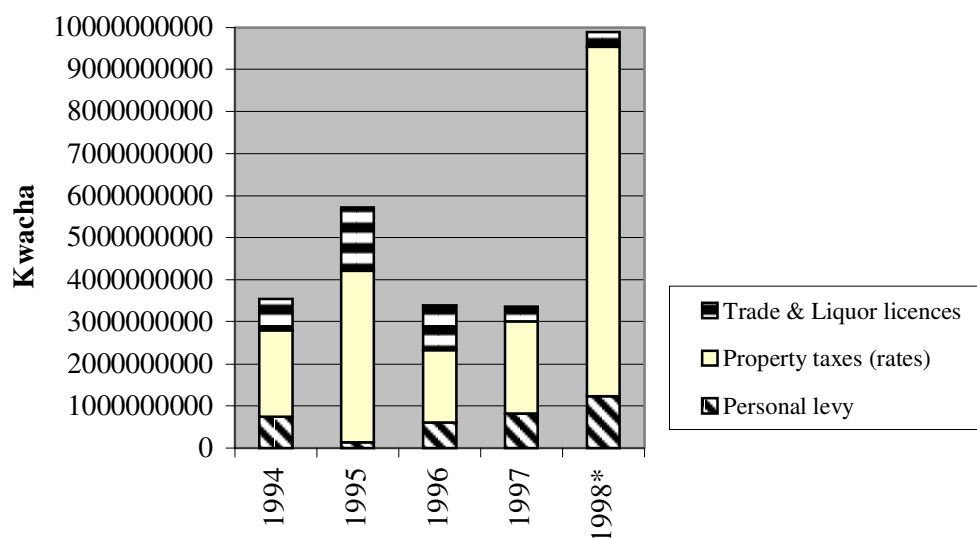


Source: Annex Table 4.2.4.1 Sup

Figures from an aggregation of the six sample councils (Tables 4.2.4.1.Sup) show a somewhat different but more realistic picture because of classification differences in CSO data. Property tax, at an average contribution to tax revenue of 72.4 percent per year, becomes the dominant source of tax revenue,. This revenue source amounted to an aggregate of K3.3 billion for all the sample councils in 1994, increased to K4.8 billion in 1997 and had a budgeted increase of K9.7 billion in 1998. Licences take the second position, at an annual average contribution of 14.8 percent, and personal levy the third position, with an average of 12.8 percent.

This picture is confirmed to some extent by the individual sample councils. Property tax, which contributed K2.0 billion in 1994, was the major source of tax revenue. It was expected to increase to K8.3 billion by 1998 (Table and Figure 4.2.4.1.D), giving an annual average growth rate of 61.2 percent. Lusaka, being the capital city and the centre of commercial activities, seemed to enjoy a unique position in this regard.

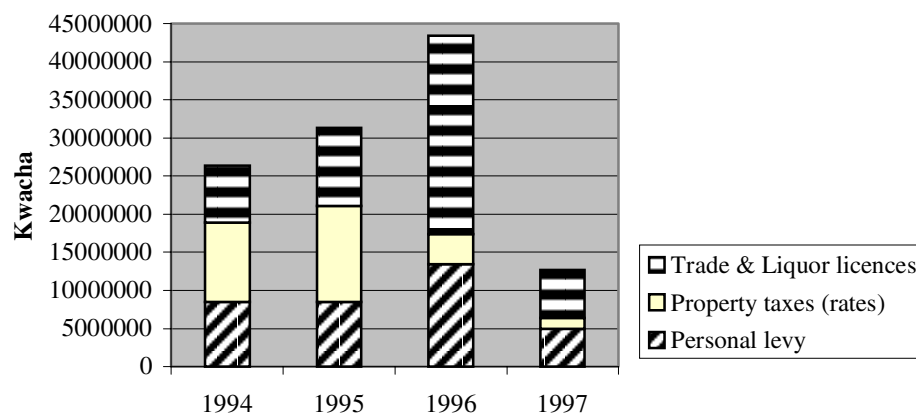
**Figure 4.2.4.1.D Composition of Lusaka City Council Taxes**



Source: Annex Table 4.2.4.1.D

The situation of Lusaka can be contrasted with Petauke District Council, which has seen a drastic fall in tax revenues since 1996. Property tax was the major tax revenue until 1995, when it dropped from K12.6 million to K3.9 million in 1996 (Figure 4.2.4.1.F). In 1996, trade and liquor taxes dominated and contributed K26.1 million of tax revenue. Since then, all tax revenues have been on the decline, particularly property tax, which registered an annual average decline of 21.6 percent.

**Figure 4.2.4.1.F Composition of Taxes of Petauke District Council**



Source: Annex Table 4.2.4.1.F

The contribution of personal levy is growing at an average of 23.9 percent for Kalulushi (Table 4.2.4.1.B) and 17.0 percent for Ndola (Table 4.2.4.1.A). Growth in trade and liquor licences is on the decline for all the councils. The average decline stands at 13.7 percent annually in Lusaka and 4.0 percent in Petauke. There are

several reasons for the decline in revenues. Starting with a reduction in the licensing tax, the main reason is the withdrawal by central government of the collection of motor road licences revenue from councils. The average rate of decline in this revenue source stands at 3.6 percent and 18.0 percent for Kalulushi and Ndola, respectively.

The Personal Levy Amendment Act of 1994 fixed the maximum leviable amount at K15, 000 per annum; income of K300, 000 per year and below is exempted. Superficially, the tax structure appears progressive; however, it is actually retrogressive. For example, a person who earns K120, 000 per month pays the same fixed amount of K15,000 per year as one earning K6 million per month. This fixed threshold, therefore, is unwarranted, given the prevailing economic climate and, in particular, the high inflation level; the levy cannot be adjusted in accordance with higher incomes or inflation. This has implications for the ability of local authorities to generate revenue. To date, the Association of Local Authorities has been unsuccessful in getting the anomalies straightened up with respect to the fixed threshold.

Additionally, because of administrative inadequacies, councils are unable to collect revenue from all the eligible taxpayers in their jurisdictions due to outdated registers and collection costs. This also explains the high incidence of uncollected tax in that category.

Property tax rates are set by the local authorities themselves through a by-law subject to approval by the central government. The tax base in this case is dependent on two factors: the time taken by the central government to approve the new rate and the extent to which the valuation roles are up-to-date. Delays in the approval of new rates by the central government and in the revision of the valuation roles (which are often five years old, particularly for small councils) by the local authorities cause substantial loss of revenue.

Moreover, the Rating Act of 1997 further reduced the local governments' resources by granting total exemptions to several sectors of the economy: agriculture, mining, electricity, communications and recreation. These developments have seriously constrained the ability of the councils to generate tax revenue, particularly those serving agricultural areas. There was, therefore, a reduction in this source of tax revenue from K15.4 million in 1996 to K2.5 million in Chibombo (Table 4.2.4.1.C) and from K26.1 million in 1996 to K6.3 million in 1997 in Petauke (Figure 4.2.4.1.F).

The sale of local government housing stock could still be seen as a potential source of rateable income. However, the expected revenue is likely to be much less than the previous rental income. The position paper on financing local government in Zambia sums up the problem:

The principle behind rates is that it is a tax on wealth. This principle might be defeated now that the people owning that wealth acquired it as a windfall gain and might not afford to pay rates on the sold properties to be based on the actual rateable values as opposed to the purchase values. There is fear in the councils that the experience from the site and service schemes might

replicate itself here. Should this happen, council revenue base will be eroded further.<sup>58</sup>

In conclusion, it can be said that tax revenue is the second most important source of revenue for the local authorities, within which property tax is dominant followed by personal levy. However, the councils are not realising the full potential of generating tax revenue due to a number of constraints. These include the inability of the central government to meet its financial obligations to the councils, the withdrawal of the collection of road licence revenue from the councils, the imposition of a maximum threshold on personal levy and widespread exemptions on property tax.

#### *4.2.4.3 Other Local Revenues*

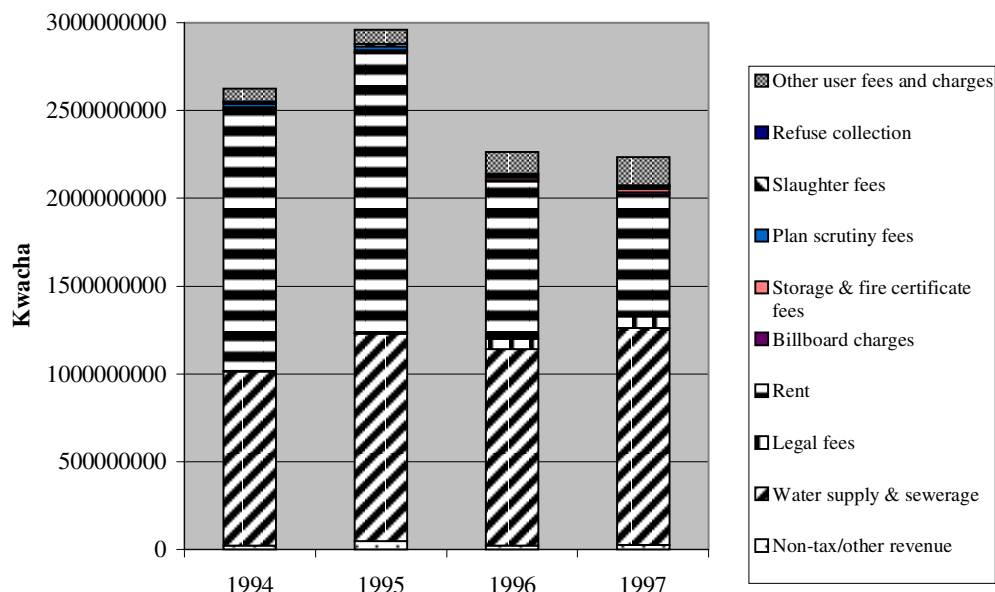
Other types of revenue are the major sources of aggregate revenue for local authorities. They contributed K11.6 billion to aggregate revenue in 1994. This decreased to K9.3 billion in 1997 (Table 4.2.4.2). The most important component of other types of revenue is user fees and charges whose average contribution to all other types of revenue stands at 96.6 percent per year. The local authorities are empowered through the Local Government Act to set these fees and charges but cannot implement them without the approval of the central government. The same Act empowers the central government to amend or revoke such fees and charges or indeed any by-law set by councils.

User fees and charges amounted to K10.9 billion in 1994 and decreased to K8.9 billion in 1997. However, the aggregate table does not provide a good breakdown and trend of this revenue type due to the format of presentation and difficulties in classification at the national level. In order to get a better insight into their composition and trend, one can look at individual sample councils. In most councils, water supply charges and rent are the largest items. House rental charges are the main contributor to user fees and charges and averaged 46.8 percent for Ndola City Council. However, this source has been declining since 1996. For the entire four-year period, the decline worked out to be 13.4 percent per year. In 1994, rental revenue amounted to K1.4 billion and dropped to K0.7 billion in 1997 (Figure 4.2.4.2.A). The rental revenue is closely followed by water supply and sewerage charges, which had an annual average contribution of 45.4 percent to fees and charges and grew by an annual average of 6.3 percent.

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<sup>58</sup> At the introduction of the site and service scheme, a site rent was introduced. However, the landlords were not willing to pay this charge. It is most likely that the new property owners will behave in the same fashion.

**Figure 4.2.4.2.A Composition of non-tax revenues for Ndola City Council**



Source: Annex Table 4.2.4.2.A

Livingstone City Council follows the same pattern as Ndola. However, Lusaka, where rental income is the dominant source of user fees and charges revenue, is an exception. The reason for this is that the water undertaking is being run by a council-owned company that has been unable to declare any dividends. Kalulushi Municipal Council seems to follow the pattern of Ndola and Livingstone, while Chibombo District Council is the odd one out; its major source of fees and charges revenue is the charcoal levy. Petauke has not provided a break down of its revenue from user fees and charges.

In the case of “other” revenue, councils are again unable to generate the full revenue potential of this source. In practice, councils find it difficult to adjust fees and charges due to delays in central government approval of such changes and the reluctance of the local authority councillors to undertake politically unpopular fee increases. Historically, these fees and charges have not been based on the concept of cost recovery. Attempts to move towards economic costing in service delivery have met with considerable political resistance even within the local governments themselves. The difficulties associated with cost recovery are dealt with in Chapter Six. It is suffice to note here that the charges are based neither on the cost of usage nor on a predetermined formulae.

The sale of local government housing stock by the central government has resulted in the loss of 30 percent, on average, of rental income contribution to total revenues of the councils. Rental income was clearly one of the major sources of revenue of the sub-national governments. It has been argued elsewhere that the housing stock of local authorities was a cost generating rather than a revenue-generating source. This could have been partly true in a normal situation where the rent paid by the tenants was

inadequate to cover the cost of house maintenance. In the Zambian case, however, no maintenance was in fact taking place. The sale of houses, therefore, translated itself as a direct loss in revenue for all the councils since 1996, particularly for the small councils, which, unlike the big councils, do not have a diverse portfolio of taxable assets. An additional repercussion of the sale of the rental housing stock is described in the position paper on local government in Zambia:

The billing system of the water element in the low cost housing areas has for many years been included in the rent account. This was deliberate as there are no individual meters as the cost of installation is unjustified and further the majority of housing units are serviced through communal water supply. It will now be difficult to collect the water income, as the punitive measure of eviction based on arrears on the composite account will no longer apply.<sup>59</sup>

In the light of the above, it can be concluded that a major source of local authorities' revenue is under user fees and charges. For most of the sample councils, the major component of fees and charges is rent and water charges. In at least one council, charcoal fees were dominant. However, the councils are not realising the full potential of this revenue source due to poor costing and the forced sale of the councils' residential housing stock.

#### 4.2.5 Transfers from the Central Government to the Sub-National Governments

There are three types of transfers by the central government to local authorities: general grants, special grants and capital grants. Capital grants are meant to assist the local governments finance capital projects, while general grants are additional financial resources extended to local governments for use at their own discretion. Special grants are used to finance tasks earmarked by the central government. Transfers in the form of grants from the central government are supposed to be a major revenue source for local authorities in Zambia. Firstly, shared taxes are transmitted from the central to the local government through such transfers. Secondly, through these mechanisms the central government provides financial resources to the councils to carry out specific functions on its behalf.

Such transfers are mandatory to finance functions such as the provision of water and sanitation facilities, health services, fire services and road rehabilitation. It is, therefore, important to see these transfers as a necessary and important revenue source for local governments within the context of ISP.

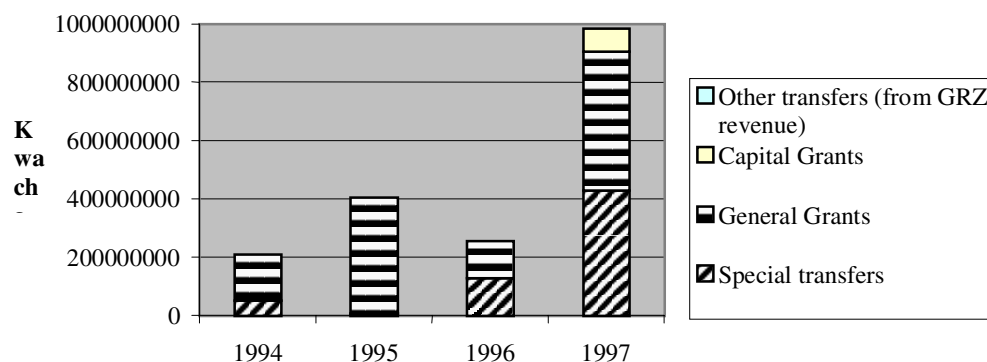
In 1994, aggregate transfers from the central government to local authorities amounted to K1.5 billion, which constituted 6.7 percent of all local authorities' total revenue (Table 4.2.4). By the end of 1995, the transfers declined to less than 4 percent of aggregate local authorities' revenues, largely because of the shifting priorities of central government. In 1997, aggregate grants declined to K1.3 billion, representing 3.4 percent of all local authorities' revenues. Despite the central government's decision in 1994 to withdraw grants made to large councils, the trickle down of grants to large councils did not altogether stop.

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<sup>59</sup> Ibid., p.9.

Tables 4.2.5 and 4.2.5.A-F show that after 1994, the grants have not only been small, but their composition has also been narrow and their disbursements erratic. The composition of grants, which is not indicated in the aggregate table, is shown in data for individual sample councils (Table 4.2.5.Sup). Figure 4.2.5.Sup below provides a visual representation of this data. As can be seen from the figure, grants consist largely of special transfers and general grants, both of which are spent on wages.

**Figure 4.2.5. Composition of transfers to all local governments**



Source: Annex Table 4.2.5.Sup

Direct capital grants were insignificant until 1997 at an amount K78.3 million for all the six sample councils. The central government has been involved in capital spending directly on behalf of councils whenever resources have been available either from external sources or domestically in the form of grants or soft loans. The benefit in kind by Ndola City Council in 1996 is a case in point. In 1996, the Chinese Government, on behalf of the Zambian Government, constructed 218 low cost houses in Ndola at cost of K1.3 billion. The Ndola City Council was not in any way involved in the undertaking. After completion of the project, the houses were handed over to the council, which now collects rental income from them. The rental income constitutes part of the council's revenue, and it is used to finance council operations under the general rate fund.

In 1997, Lusaka City Council received transfers totalling K283.1 million in special and capital grants (Table 4.2.5.D), which represented 2.5 percent of total local authority revenue (Table 4.2.4.D). There is neither a formulae nor guidelines for disbursements of all types of central government transfers to local governments. Even though the central government makes an effort to inform the local authorities as to what they should expect in grants, such promises are most often unfulfilled. For example, the mandatory grant in lieu of rates, which the central government is supposed to pay local government, only constitutes on average 1.2 percent of the actual rate which the central government is supposed to pay to the Livingstone City Council. Despite such lean contribution, the central government is most times unable to meet such small financial obligations. Consequently, it is difficult for the councils to make meaningful plans for the use of grants. Capital grants, or indeed any other grants, are thus arbitrarily decided upon by the central government.

It may also be noted that the sub-national governments do not have any input on the level of grants or any influence on the results. Therefore, fiscal transfers to local governments do not reflect clearly defined objectives. Hence, no link exists between grant disbursements and the transfer of new tasks or functions that the sub-national authorities undertake on behalf of the central government.

Interviews conducted among the sample councils reveal that the councils understand and have always tried to act upon the lean resources allocated to them. With a decline in the level of transfers, the local authorities have pursued other alternative revenue sources.

In conclusion, the Zambian case has shown, contrary to the results from most of the countries in the world, that the transfers from the central government constitute a very small and insignificant proportion of total local authorities' revenue.

#### 4.2.6 External Finance of the Sub-National Public Sector

##### 4.2.6.1 *Sub-National Government Borrowing*

The Local Government Act of 1991 empowers local authorities to borrow from the following sources: the central government or another local government, financial markets by issuing stock or bond, by mortgage, by temporary loan or overdraft from banks and other sources or by loan from any other sources. However, councils are prohibited by the same Act to borrow or receive grants from a foreign government or foreign organisation.

Table 4.2.6.1 demonstrates that there has been no new borrowing by the sample councils in the period 1994 to 1997, with the exception of the year 1996. In 1996, sample councils' aggregate borrowing amounted to K1.3 billion, and there was an outstanding debt of K8.5 million<sup>60</sup>. Local governments are not considered creditworthy due to their poor financial performance record, and the sale of council houses has made this situation worse. Consequently, local authorities rarely borrow except when they use overdraft facilities to meet their short term financing needs whose funding is met from their recurrent expenditures.

Occasionally, unplanned short-term borrowing is contracted at the behest of the central government. For example, Lusaka City Council borrowed K1.3 billion from a commercial bank to finance a controversial housing project that was riddled with irregularities (Table 4.2.6.1.D). The loan was obtained on instructions from the Minister of local government without approval of the council or provision of security. As a result, the City Council had to repay the loan the same year by diverting resources that could have been used elsewhere. Livingstone City Council registers an outstanding loan of K8.5 million secured from a pension fund in the 1970s (Table 4.2.6.1.E). No borrowing was registered for the rest of the other sample councils. It is, thus, clear that little or no medium- or long-term borrowing is undertaken by the sub-national governments.

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<sup>60</sup> Aggregate sample councils figures have been used because national figures are not available from the Central Statistical Office.

#### *4.2.6.2 Sub-National Debt Service: Payment on Loans*

The preceding analysis has shown that borrowing by local authorities is rare and very small. Consequently, the levels of debt service are also very small, accounting for under 0.3 percent of local authorities revenue from 1994 to 1997, with the exception of 1996, when it accounted for 5.8 percent (Table 4.2.6.2). Aggregate debt service for the sample local authorities amounted to K26.8 million in 1994 and increased to K60.5 million in 1997 (see footnote 66). This debt service is a result of the irregularity in borrowing and paying for outstanding debt.

Lusaka City Council had to repay the total amount of K1.3 billion that was borrowed in 1996 in the same year (Table 4.2.6.2.D). Livingstone City Council registered debt service levels equal to borrowing for the same reasons. Debt service by Livingstone City Council amounted to K25 million in 1994 and went down to K21 million by the close of 1997 (Table 4.2.6.1.E). Only the Lusaka and Livingstone City Councils recorded cases of debt service.

It can be concluded from the above that very little debt service takes place in the sub-national governments.

#### **4.2.7 Sources of Finance for Selected Types of Infrastructure**

It has been observed from Subsection 4.2.3 that there is lack of direct capital expenditure in most of the sub-national governments. Direct capital spending constituted less than 10 percent of aggregate local authorities' expenditure. It is recorded in only three of the six sample councils: Ndola, Kalulushi and Lusaka. Capital expenditures are normally financed through borrowing by the local authorities (following central government intervention) and through transfers of grants from the central government. The resources for infrastructure projects that are externally derived and directly undertaken by the central government on behalf of the councils, strictly speaking, cannot be classified as council resources.

External donors have largely focused on water supply, reticulation and sanitation and have accounted for 99 percent of capital spending in selected infrastructure investments. For Ndola, Kalulushi and Livingstone councils, the donors in this area include Care International, Africa Development Bank, International Development Association of the World Bank and NORAD (Tables 4.2.7.A,B and E). The balance is accounted for by road rehabilitation that is locally financed. It is worth noting that of the total pledged allocation from the fuel levy collected by the Roads Board for road rehabilitation (the main source of local finance), less than 10 percent has been spent directly by the central government on behalf of the local authorities. The World Bank is funding market rehabilitation in Kalulushi through the Micro Project Unit of the Ministry of Finance and Economic Development. Aggregate external and local financing for infrastructure remains relatively low. While councils are sometimes involved in the identification of capital projects to be financed, they are rarely consulted in the final selection, let alone during implementation of the projects.

The law does not prohibit councils from involving the private sector in financing projects. Presently, however, there is little or no activity in this direction, though some

councils like Livingstone City Council have gone to the extent of establishing a private sector liaison committee. The main obstacles in pursuing this line of financing are two-fold. Firstly, the severe economic decline in all sectors of the economy, perhaps with the exception of retail trade, has severely compromised the ability of business houses to provide financial assistance to the councils. Secondly, there is increased unwillingness by both residents and business houses to extend financial assistance and even pay the required fees, charges and levies, etc. to the councils due to the long record of poor service delivery by councils. There is a general lack of confidence in the councils.

In conclusion, it can be said that the financing of infrastructure projects is mainly undertaken by external donors; local financing has played a minor role in this activity. Overall, financing for infrastructure remains relatively low. More importantly, the implementation of capital projects has been undertaken primarily by the central government without the involvement of local authorities.

#### 4.2.8 The Relationship between Expenditure and Tax Assignments between the levels of Government

Local authorities are body corporate established by the Local Government Act of 1991. The Act stipulates specific grants for carrying out tasks assigned by the central government to local authorities (see Chapters Three and Six for details). However, since the mid-1970s, there has been a continued inability on the part of government in providing these grants. The accrued neglect of capital replacement initiatives over many years has compounded the councils' inability to meet their statutory obligations in ISP. The sub-national governments are required to prepare and manage their budgets with strict adherence to statutory provisions. Council budgets have three major revenue components:

- local taxes - rates, personal levy and licences;
- fees and charges, as prescribed by section 45 of the Local Government Act; and
- specific and general grants from the central government.

Although there have been calls for local authorities to reduce their dependence on central government, these have not been accompanied by a corresponding reduction in the statutory obligations of the councils or improvement in their capacity to generate the requisite financial and human resources. As earlier demonstrated, local taxes in the form of property tax (rates), personal tax (levies) and licences constitute one of the major source of revenue of the councils and contribute an average of 29.8 percent to total local authorities' revenue per year (Table 4.2.4). However, as earlier observed, the Rating Act of 1997 has crippled one of the councils' tangible sources of income.

Revenues from fees and charges (from meat inspection, permits, scrutiny of building plan charges, etc.) that depend on economic performance have also been affected. They target the majority of the populace, with or without a permanent source of income, for as long as they use council services.

In 1994, the central government announced the cessation of grants to the big councils, while the allocations to municipal and rural councils were reduced. Disbursements became erratic, accounting for an average of 3.4 percent of any given council's total revenue. Grants for fire services, health and sanitation, housing and other similar services, by default, have been abandoned. Therefore, councils have been unable to meet their mandate of providing service deliveries. There is a huge imbalance between the cost of service delivery and the financial resources available to carry out the tasks. Local authorities, in their present state, are unable to provide meaningful and acceptable service delivery levels to their respective communities. Only with sufficient revenue can councils engage contractual works in service provision with a view to improve the quantity and quality of service delivery.

The disbursement of limited amounts of grants by the central government to local councils in 1996 and 1997 should not be seen as a change in the central government position. In part, these have been a consequence of a condition relating to wage and salary increments and represent a central government contribution. In addition, donors, through the central government, have provided support of water or sanitation activities in specific councils. These grants are fully administered by the central government.

Another important consideration is the concept of *cost recovery*, which has not been practised to date due to social and political considerations. Yet, it is the cornerstone of successful and sustainable service delivery. All councils charge unrealistically low rates due to political influence in the councils themselves and by the central government. The failure to apply the cost recovery concept is one of the major reasons for the dismal performance of councils.

The central government has assigned many tasks to the councils in the absence of financial resources or a means to generate them. For example, refuse collection, fire services, road rehabilitation and maintenance all require large capitalisation that councils can not provide from their crippled internal sources of revenue. For example, the task of burying the deceased destitute has been shifted to the councils to expedite this process. The central government, through the Ministry of Community Development and Social Services, is expected to reimburse the councils for this service. However, the refunds have not been remitted, and this task has become a council expenditure item by default. This is a clear case of shifting deficits to lower levels.

Local authorities under the Local Government Act are empowered to fix fees and charges on the revenue sources that they impose on their communities – such as, scrutiny fees, rental, billboard fees, inspection fees, etc. - subject to approval by the central government. Statutory sources of revenue – such as, licences, personal levy, firearms licences, etc. - are under the mandate of the central government. At present, the rates are very low and outdated. Moreover, there have been delays in central government review of these rates. The councils can only make recommendations with respect to property tax. Local authorities' own taxes contribute 100 percent of total tax revenue for each individual council since there is lack of shared tax revenue.

In conclusion, it can be said that there is a huge disparity between the financing requirements for service delivery and associated revenue. The central government has not been able to meet its financial obligations to the local authorities. Furthermore, the fixed threshold on personal levy, the wide exemptions introduced in the Rating Act, poor macroeconomic performance, and low tax rates, fees and charges have inhibited the ability of councils to generate revenue.

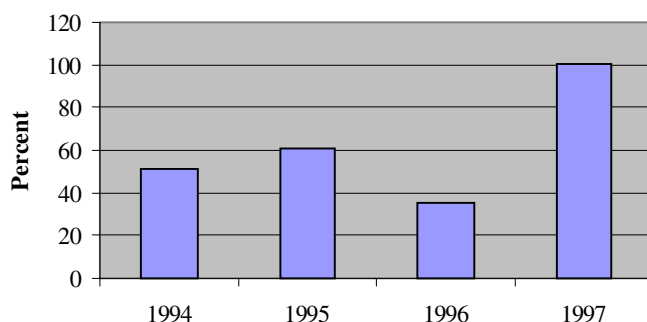
#### 4.2.9 Estimation of the Local Authority Revenue Potential

It has been seen that sub-national governments do not realise the full revenue potential in their respective areas. As shown in Table 4.2.4.Sup, which shows uncollected revenue, the debtors' position increased from K2.0 million in 1994 to K12.7 million in 1997 (based on four sample councils). This gives an annual average increase that more than doubled the uncollected debt per year. By the end of 1997, 50.5 percent of the uncollected revenue was attributable to own taxes and 21.8 percent to user fees and charges. Hence, own taxes and user fees and charges accounted for 72.3 percent of the total uncollected revenue that year. The balance was accounted for by others, including grants, which accounted for 16.9 percent.

This position is also confirmed when examining the potential revenue-generating capacity of the councils as measured by percentage potential increase. The revenue potential increase is derived as a percentage difference of the actual from the potential revenue. The revenue potential increase, therefore, defines the percentage of uncollected revenue based on the existing revenue base. For each revenue source, a negative difference shows the magnitude to which collected revenue fell short of the current revenue potential. The revenue potential itself is a budget estimate of revenue based on indicators of existing tariff rates and tax base as compared.

It can be seen that the councils have not been able to tap all the existing tax potential; the average potential increase stood at 62.0 percent over the four-year period (Table 4.2.9). In 1997, the potential increase grew to 100.9 percent from 51.2 percent in 1994 (Figure 4.2.9). The untapped aggregate revenue stood at K5.4 billion in 1994 and increased to K18.9 billion in 1997, as indicated by the negative difference of actual revenue from estimated potential revenue. The implication of this is that the councils are becoming less efficient in the collection of tax and non-tax revenue.

**Figure 4.2.9 Sample Local Authorities  
Revenue Potential**



Source: Annex Table 4.2.9

An examination of specific types of revenue sources shows that personal levy and licences fall in the lowest level of potential increase of 0-25 percent. Property rates and service charges fall in the second category of 26-50 percent. In the medium category of 51-75 percent, is house rental, while house sales and “others” fall in the high category of 76-100 percent. The highest potential increase revenue sources (in excess of 100 percent) include refuse collection charges, hire of hall charges, liquor undertaking charges, pre-school charges, meat inspection charges, investment undertaking, bus station charges, and factory income. There is, therefore, substantial potential for the sub-national governments to improve their revenue position, given the existing revenue instruments. The high level of administrative bottlenecks has proved to be a constraint in improving revenue collection. Record keeping is very poor, and efforts to collect more revenue are inhibited by ill equipped debtor collection units, which lack transport and at the same time, face a hostile community.

The prospect of autonomy as regards the level of tax revenue based on existing laws is remote. In contrast, there is considerable room to increase tax revenue collection. The decision as to the level of tax rates with respect to personal levy rests with the central government. However, the local tax rates, such as property tax and those established by by-laws, including user fees and charges, are determined by the local authorities, subject to central government approval. The central government further reserves the right to revoke any tax rate at any time.

In conclusion, it can be said that only half of existing revenue potential is being collected by the local authorities. This shortfall can be attributed to administrative inefficiencies and the high cost of collection.

#### 4.2.10 Evaluation of Tax Assignment and Administration of Taxes

The sub-national governments’ tax structure is clear. However, the impediments that exist are the lack of regular review of the statutes and political influence that results in irregular changes in the rates. Most local authorities lack the capacity to efficiently manage tax assignments due to poor records keeping and lack of well-remunerated trained manpower to carry out the tasks.

As already stated, councils operate in a national economic environment that experiences perpetual turbulence. This makes it difficult for them to provide meaningful service deliveries to their communities. It is almost impossible for the councils to plough back the little that they collect into ISP, as it is insufficient to pay the wage bill. This scenario has rendered councils unaccountable as communities complain of non-provision of services.

As Table 4.2.10 shows, local authorities have autonomy over tariffs - fixing fees and charges for various services. They are wholly responsible for the administration of the tariffs, in terms of keeping the register of the clients, collection and supervision of fees and charges. However, while they are responsible for the determination of the tariff rate, the rate is subject to central government approval. The local authorities also have the mandate to provide for both recurrent and capital expenditure estimates. Tax administration, rates, personal levy and licences are the responsibility of the local authorities also. However, with the exception of rates, where the councils only make recommendations for subsequent approval by the central government, the rest of the taxes are determined by the central government.

The central government has given councils powers to administer the three taxes - personal levy, rates and licences - comprising own taxes. From the administrative point of view, there are no overlaps, except for control over fixing and approving the rates. Therefore, the collection of revenue from own taxes is carried out by the councils. However, there is lack of revenue from shared taxes (refer to section 4.2.4.1). Moreover, there is no information that explains even the basis for sharing revenue between the central government and sub-national governments. The lack of such information means that there are no sharing ratios or formula.

#### 4.2.11 Analysis of Sub-National Governments' Creditworthiness

The financial position of councils in Zambia has reached its lowest ebb, due to a number of factors. Notable among these are:

- macroeconomic performance;
- fiscal policy management;
- withdrawal of grants; and
- disposal of council assets for political expedience.

The central government's policies, since 1973, have had a negative impact on the local authorities' ability to generate financial resources and provide services to their communities. The creditworthiness of the councils is not known, as they do not prepare appropriate financial accounts. The financial framework used by the councils, which is required by the central government, is based on a receipts and payments system. Since 1994, none of the sample councils has had accounts audited, which is a standard practice for the rest of the country. A lot of hidden expenditure is not projected as spent. The sale of council residential housing stock and the disposal of the commercial assets have further worsened the unknown creditworthiness of councils.

This has also been worsened by the inability of the councils to generate more revenue from the existing taxes, due to the fixed threshold on personal levy and widespread exemption on the payment of rates (refer to section 4.2.4.1). The poor performance of councils on past loans has made it very difficult for councils to access any reasonable financial support from business houses.

This scenario limits the councils' opportunities to access financial markets, although the Local Government Act allows them to issue municipal bonds. A further constraint in this regard is the undeveloped nature of Zambia's financial markets, which are still in their infancy. The failure of quasi-government financial houses - such as, the Zambia National Building Society, Zambia National Provident Fund, Local Authorities Superannuation Fund, etc. - that were set up to provide financing to the councils compounded the problem further. Moreover, there is no concrete attempt by either the central government or donors to set up alternative credit institutions/arrangements or, indeed, revamp the existing ones.

#### 4.2.12 Conclusions

A number of conclusions can be drawn regarding the financial status of sub-national governments in Zambia. Firstly, with respect to revenues, councils have experienced a major decline in both real revenues and expenditures over the period 1994 to 1997. The burden of the decline in real revenues and expenditures has fallen more heavily on councils; their shares of total public revenue and expenditure have become quite small, and their contribution to GDP and borrowing remains insignificant. The sub-national governments' revenues remain small as a share of total central revenue.

Over 90 percent of the expenditure is recurrent, while the balance goes towards capital spending. Smaller councils spend their revenue exclusively on recurrent expenditure. Decentralisation, in terms of patterns of expenditure and revenue, is rather limited in Zambia. The total cash flow position of the councils remains grave and exemplifies the poor state of service provision, in the midst of which councils tend to run surplus receipts and payments accounts.

While there has been an increase in aggregate local authorities' revenues (in nominal terms) in their efforts to raise more revenue, the increase has not matched the rate of inflation. The major source of revenue is user charges and fees, while tax revenue in the form of own taxes takes second place. There is a lack of shared taxes in Zambia because of the inability of the central government to meet its financial obligations with respect to mandatory grants. A framework for sharing taxes in respect of functions that are undertaken by the councils on the central government's behalf is also lacking. This has a direct bearing on the poor financial and management position of the sub-national governments. Unlike what obtains in many other countries, the Zambian case has shown that transfers from the central government constitute a very small and insignificant portion of total local authorities' revenue.

Property tax is the major source of tax revenue, followed by personal levy. The councils are *not* realising the full potential of generating tax revenue, due to a number of factors. These factors include the inability of the central government to meet its financial obligations to the councils, the withdrawal of the collection of road licence

revenue, the imposition of a maximum threshold on personal levy, the widespread exemptions on property tax, the low rates of tariffs compared to the cost of collection and inefficiencies in revenue collection.

Secondly, with respect to the expenditure pattern of councils, the major part of the recurrent expenditure is directed towards paying wages. The sectoral distribution of spending is dominated by general public services. While health and housing have recorded increased spending in nominal terms, the increase has been spent largely on wages. Consequently, service delivery has deteriorated. The similarities in the spending patterns of the sub-national governments mean that they are faced with similar problems, irrespective of their sizes. Direct capital spending in all the sub-national governments has been low, with the majority of it occurring in only two of the 72 councils countrywide. The spending has been directed towards general public services, while service deliveries in health, community amenities and economic services have lacked direct investment. The financing of infrastructure projects is mainly undertaken by external donors via the central government, while local financing has played an insignificant role. Overall, financing for infrastructure remains relatively low. The implementation of infrastructure projects is largely undertaken by the central government with minimal, if any, involvement of councils. This practice has far-reaching implications for the autonomy of sub-national governments.

What is particularly noteworthy *vis-à-vis* the general performance of councils in ISP is the significant disparity between financing requirements and revenue generation. The current levels of revenue collection constitute half of existing revenue potential. The sub-national governments are not considered creditworthy due to their poor financial performance record, poor accounting and general inability to realise the full potential of their various sources of revenue. There is little or no medium- and long-term borrowing by the sub-national governments. The short-term borrowing that some councils undertake is generally quite insignificant and is financed through bank overdrafts. As a result, debt service is also very small. Consequently, the councils' revenue bases are completely out of tune with the level of their assigned ISP responsibilities, a phenomenon that has placed them in a weak position in services delivery.

The next Chapter looks at the nature and magnitude of infrastructure and services provision. It draws heavily on the experiences of the six sample councils selected for this Study. The performance of the councils in Zambia, as discussed in the subsequent chapter, should be understood in the context of the general fiscal conditions analysed in this chapter.



## CHAPTER FIVE

### INFRASTRUCTURE AND SERVICE PROVISION BY THE PUBLIC SECTOR

For the purpose of this Report, *Infrastructure and Service Provision* (ISP) refers to the infrastructure, processes, systems and services that are put in place by various providers for meeting the needs of the target communities. These facilities may include water supply and sanitation services, including sewerage services; educational and health facilities; road construction and maintenance; power supply; and other physical infrastructure and utilities. The providers of ISP are varied. While the focus of this Study is on sub-national governments (i.e. councils/municipalities), it is increasingly being recognised that other actors and stakeholders ought to be brought on board in ISP. These include the private sector, NGOs and, more importantly, the users/beneficiaries themselves.

This Chapter begins with an examination of the division of responsibilities among the different levels of government. This is followed by a review of the organisational patterns of ISP. Then, a closer look is taken at the indicators of the comprehensiveness of ISP with respect to consumer needs. After this, an attempt is made to analyse the issue of affordability of ISP, drawing heavily on earlier studies. Finally, the role of new infrastructure investment in relation to existing stock within sub-national governments is analysed, after which some general conclusions are made.

#### **5.1 Division of Responsibilities among the Different Levels of Government**

Generally, the government has rededicated itself to ISP in its draft decentralisation document, and it has listed the following main objectives in this regard:

- to provide infrastructure support to ensure that delegated and devolved functions and responsibilities are effectively carried out by field administration and local government;
- to develop capacities for infrastructure development and maintenance at all levels to ensure sustainability and efficient provision of services;
- to build capacities for infrastructure development and maintenance at all levels for sustainable service delivery; and
- to build and sustain capacity for infrastructure development and maintenance at all levels for service delivery.

In terms of strategy, the government plans to empower local governments with the requisite technical knowledge and equipment to enable them to attain their mandate. Beneficiary communities and the private sector are also to be directly involved in ISP.

Notwithstanding the above policy position, it is noteworthy that the demarcation of responsibility within the government system is not very clearly defined at either the level of control/management or actual delivery by the various stakeholders. Within the

government system, there is a considerable degree of overlap of responsibility and little co-ordination among the role players. These factors have significantly compromised efficient and effective delivery of services to consumers. Indeed, this Study has revealed several institutional weaknesses that are principally caused by the fragmentation of administrative and operational responsibilities among numerous institutions and agencies. Matrix 5.1 shows the division of responsibilities among different levels of government that are involved in infrastructure and services provision (ISP).

The Councils are empowered by law to perform most of the functions shown in Matrix 5.1. Section 61, second schedule of the Local Government Act No. 22 of 1991 (as amended) gives a comprehensive list of functions (numbering thirty-three) to be performed by councils. The list of services provided by urban, as opposed to rural, councils is generally broader and more complex. These functions are as follows:

**Matrix 5.1: Division of Responsibilities among Different Levels of Government**

RESPONSIBILITIES <sup>61</sup>	CENTRAL GOVERNMENT	STATE ENTERPRISES (PARASTATAL)	SUB-NATIONAL GOVERNMENTS (COUNCILS) <sup>62</sup>
Water supply			
Sewerage			
Solid waste management			
Educational facilities			
Health facilities			
Electricity			
Roads (townships)			
Roads (country)			
Street lighting (townships)			
Drainage			
Fire cover			
Housing facilities			
Land development			
Environmental health			
Markets			

*Urban Areas:* Treated water reticulation; refuse collection; malaria and associated pest control; tarmac and gravel roads and drainage maintenance; civic estates; street lighting; other engineering activities (including transport, Council buildings, fire services and planning); central support services (including finance department and town clerk staff, training, stationary and Councillors' allowances); sewerage disposal; housing; markets; cesspit emptying; bus terminals; kiosks; site and service; and social services (including stadium, libraries etc.).

*Rural Areas:* Treated water reticulation for the township; malaria and associated pest control; gravel roads, drainage and bridges maintenance; central support services;

<sup>61</sup> Note that the Zambia Consolidated Copper Mines Ltd, the only remaining parastatal that still provides considerable levels of infrastructure services, particularly in the mining towns, has been excluded in the data used to compile this matrix. This is because the company is undergoing privatisation, and it has since begun the process of hiving-off non-mining activities in its sphere of operations.

<sup>62</sup> Note that some councils are currently considering sub-contracting some of their services to the private sector. For Lusaka City Council, a separate company, Lusaka Water and Sewerage Company, is responsible for the provision and maintenance of water and sewerage systems. Furthermore, other councils are following suit. Separate Water and Sewerage companies have been formed to cover the councils in the Copperbelt and Southern Provinces and are expected to be operational during early 1999.

refuse collection for the townships; housing; markets; cesspit emptying; transport; and training.

Several councils - including Lusaka, Livingstone and Kalulushi - have formed or are in the process of forming utility companies that operate on commercial principles (see Chapter Six, section 6.6, for details). Lusaka's utility company, Lusaka Water and Sewerage Company, is already operational. For Petauke, the responsibility of providing water to the townships was delegated to the Department of Water Affairs (DWA) of the central government until early 1998, when it was handed over to the Council. This responsibility appears not to be adequately discharged by the council for a host of reasons, among which is the existence of dilapidated equipment. Nevertheless, donor support has been extended to the Council in the delivery of water services, particularly from UNICEF and NORAD, through their jointly supported WASHE programme. UNICEF provides the funds, and NORAD provides administrative and institutional support. Chibombo is responsible for township water supply, as well as rural water supply. In Chibombo, there is a marked community participation component in the rural water supply activity. Both councils obtain their water from boreholes for the township and wells for the rural community.

## **5.2 Organisational Patterns of Infrastructure and Services Provision**

### **5.2.1 National Overview**

Most of Zambia's infrastructure was developed before 1974, when the economy was performing well. Following the decline of the copper revenue that financed much of the investments in the country, infrastructure maintenance became unsustainable. Presently, the country's infrastructure is costly to maintain and operate and is largely confined to the formal business and settlement areas. The central government, by legislation, has transferred the responsibility of infrastructure and services provision to sub-national governments. However, adequate human and financial resources do not exist to meet the challenge of escalating demand for services in rural and urban areas. Most of the sample councils are unable to provide the services, in sufficient quantities and qualities, that they are mandated to deliver (See Chapter Six for details on the explanatory factors). The suppliers of infrastructure and service are shown in Matrix 5.2. The matrix shows wide coverage by the councils *vis-à-vis* various components of ISP. All the components of ISP, except primary and secondary education and electricity, are the responsibility of the councils. However, as earlier noted, the responsibility for water supply and sewerage has already been transferred to CUs in the cases of Lusaka and Chipata. In addition, new CUs are in the process of being set up in the Copperbelt and Southern Provinces. Furthermore, studies are underway to determine the viability of CUs in other provinces.

The wide coverage of the ISP responsibility by the councils has serious implications for the quantity and quality of services actually delivered, considering the major constraints which councils face in discharging their responsibilities.

**Matrix 5.2: Distribution of ISP Responsibilities**

	EDUCATION		HEALTH		COMMUNITY ACTIVITIES				ECONOMIC ACTIVITIES			
	Pre-School	Primary	Secondary		Water Supply	Sewerage	Sanitation	Electricity <sup>63</sup>	Solid Waste	Transport	Roads	(Electricity)
1. Lusaka												
C												
S												
SN												
P												
J												
O												
2. Ndola												
C												
S												
SN												
P												
J												
O												
3. Kalulushi												
C												
S												
SN												
P												
J												
O												
4. Chibombo												
C												
S												
SN												
P												
J												
O												
5. Livingstone												
C												
S												
SN												
P												
J												
O												
6. Petaluke												
C												
S												
SN												
P												
J												
O												

<sup>63</sup> This refers to *distribution*, while electricity, under economic activities, refers to *production*.

C = Central government; S = Shared between central government and sub-national government (i.e. councils); SN = sub-national government; P = Parastatals; J = Joint sub-national government; O = Other institutions (e.g. the private sector).

In analysing the problems and prospects that face the six councils under review, it is important to understand the historical and prevailing conditions at the national level *vis-à-vis* ISP. Infrastructure and services provision in urban Zambia registered marked improvement during the 1960s and 1970s, but the 1980s and beyond witnessed considerable decline in what was established. As the performance of the Zambian economy worsened, infrastructure has been left to collapse, literally. This decline in rural and urban services has adversely affected all sectors, including investment in and development of the private sector that is essential to the growth of the economy, in general, and the improvement in ISP, in particular. This decline in services provision has continued to adversely affect investment in the country. The growth of the private sector has evidently been compromised by the infrastructure decline, despite the liberalisation of the economy. Under the present circumstances, firms are forced to develop and bear the cost of managing their own private water supply, sewerage systems, power sources, sanitation and other infrastructure. Consequently, their production costs are pushed to levels that make these firms uncompetitive in both the regional and international markets.

The deterioration in infrastructure provision in Zambia has had a severe impact on the poor, a group that constitutes about 70 per cent of the country's population. Those that live in rural areas and the unplanned urban settlements are particularly affected. Most of the six councils examined in this Study accommodate populations that are largely in the poor category<sup>64</sup> and that are least able to effectively contribute to sustainable ISP. Presently, only 3 percent of rural households and 40 per cent of those in urban areas have electricity. Many urban residents access piped water; however, poor maintenance records and insufficient water treatment chemicals have rendered the supply generally unsafe to drink. Ndola, Kalulushi and Livingstone councils all reported that their budgets could not accommodate adequate water treatment chemicals. Similarly, national statistics show that less than 59 percent of urban dwellers have access to adequate water. The worst hit are the society's poorest, mainly those in remote rural areas and in unplanned urban settlements that are generally overcrowded and unhygienic.

## 5.2.2 Overview of Main Infrastructure Services

### 5.2.2.1 Education

Generally, education in Zambia is provided by the state and the private sector; local authorities have very little involvement in the delivery of this service. It is only at the level of pre-school that some councils, mainly those in the urban setting, provide facilities. Since the mid-1980s, Zambia has experienced a crisis in its educational system. The sources of the crisis are numerous. They include reduced funding levels in

<sup>64</sup> The definition of the poor consists of individuals and households classified into two groups, namely: 1) extremely poor - persons living in households with equivalent income below K20,181 per month and 2) moderately poor - persons living in households with equivalent income equal to or above K20,181 per month, but lower than K28,979.40 per month. Source: CSO, Living Conditions Monitoring Survey Report, 1996.

the midst of rising population growth and declining national revenue, itself a product of the generally poor economic performance. An unsupportive policy environment, coupled with weak educational management structures and capacities, also continues to compromise the positive development of the educational sector. The educational crisis has manifested itself in different ways: deterioration in the quality of the teaching and learning environment; decline in the of the educational system; reduction in the opportunities for education among low income groups, particularly rural children; and increasing lack of faith in the value of education by parents and children.

The problems that inhibit the education sector's capacity to contribute effectively to national development are quantitative, qualitative and managerial in nature. They include the following:

- the decline in education expenditures has been so massive that the system can no longer be sustained at its present level of funding;
- the functional distribution of the educational budget is weighted too much in favour of salaries and student welfare, crowding out quality-enhancing inputs such as learning materials; and
- primary education has suffered the main decline in expenditures.

The share of public expenditure for education levelled off from an average of 12 percent before 1984, to 9 percent between 1984 and 1989. Over the years, a steep decline in expenditure for education has been witnessed. Available data show that educational expenditure rose steadily from about 7.5 percent in 1980 to about 22 percent in 1984. It declined to 8 percent in 1986. Since 1986, the share of education expenditure to total expenditure remained below 10 percent until 1992, when it rose to just over 15 percent. It increased further to about 19 percent in 1993. Subsequently, it dropped to below 15 percent in 1994. Since that time, the government has maintained plans to keep the share of education in the state budget at not less than 15 percent. However, many years of neglect have resulted in the following state of affairs:

- reduced government funding, especially for capital projects;
- inadequate equipment, teaching materials and maintenance;
- overcrowded classrooms, especially in urban primary schools;
- dilapidated educational infrastructure;
- unattractive conditions for teachers;
- exodus of teachers from the educational system; and
- decline in the quality of education and lack of leadership for effective management.

The 1980s saw Zambia enter into the Structural Adjustment Programme. As part of the conditions of this programme, education financing shifted from state domination to cost sharing. The latest in the policy initiatives, and one that is perceived to be an important companion to the *Educating our Future* policy document, is the Education Sector Integrated Programme (ESIP). ESIP is based on the principles of partnership, efficient and effective use of resources, accountability and equity. The programme is perceived as the vehicle for increasing collaboration among stakeholders in order to maximise the use of the available meagre resources for education and skills training. ESIP, which is still undergoing refinement, is a comprehensive programme designed to

respond to the fragmentation that characterises Zambian education and training in the areas of financing and projects/programmes implementation. Building on the principle of liberalisation, the Ministry of Education has developed an education policy within ESIP that embraces the ideological direction of *liberalisation, decentralisation and partnership* for educational development. The kind of partnership being encouraged by the government involves government and non-governmental organisations, the private sector, local communities, religious groups, individuals and families.

#### 5.2.2.2 Health

Councils, the private sector and central government all provide health services. The role of local authorities is confined mainly to clinics and health centres, as opposed to hospitals. The service was provided free of charge until 1991, when the new government introduced a policy of cost sharing that does not involve full cost recovery. Central government has continued to provide subsidies to clinics that are run by councils, mainly with the assistance of external donors. SIDA, for example, supports the health sector, and many rural health centres have been funded by this donor agency.

Generally, the state of clinics is poor, in terms of both infrastructure and availability of drugs. Medical personnel, particularly in specialised fields, are also insufficient to attend to the rising demand for both curative and preventive care that clinics extend to their patients.

#### 5.2.2.3 Water Supply and Sanitation

One sector that is being handled by all the sub-national authorities examined in this Study is water supply and sanitation. The water supply and sanitation infrastructure within the country is generally dilapidated, and the six councils are no exception. While urban populations in Zambia have better access to water supply and sanitation systems than rural dwellers, the systems in urban areas are generally poor. Communal taps are the most common method of water supply in low-income areas. Small urban townships - including Kalulushi, Petauke, and, to a considerable extent, Livingstone - are particularly affected due to power cuts, inadequate reticulation systems and shortages of spare parts and chemicals.

Water supply service in the six councils is grossly inadequate in terms of meeting demand as well as the physical state of what is being provided. Presently, only a small percentage of the residents are supplied with clean water by the councils. A host of factors compromise the effective delivery of water in the six councils. These include the poor state of equipment, inadequate financing and poor staffing.

#### 5.2.2.4 Sewerage Systems and Drainage

Sewerage service coverage in all the studied councils is quite low relative to demand. Less than half of the councils' catchment populations are reached by the sub-national governments. Most unplanned settlements are either located outside the serviced areas or, if they are included, receive below-standard service. Consequently, sanitary conditions in these high-density areas are poor, particularly during the rainy season when, due to the extensive use of pit latrines, the contamination threat to their water

sources (mainly open wells) is usually high. The prevalence of diarrhoeal cases in these communities has been explained chiefly by the poor sanitary conditions.

The physical state of the sewerage systems in the six councils has reduced the effective utilisation of installed capacity. This situation has been worsened by inadequate water supply in most council areas, particularly in Lusaka, Ndola and Livingstone where this vital resource is usually rationed. This study has established that the present sewer load in Lusaka, Ndola, Kalulushi and Livingstone cannot adequately flow in the existing sewer pipes under gravity because the required liquid/water is not sufficient.

Poor maintenance and lack of expansion of existing sewerage infrastructure, save for recent developments in some of the councils such as Livingstone (see below), also contribute to the poor service in most of the councils studied. The sewerage collection networks in almost all these locations were laid several decades ago, mostly using asbestos cement pipes with diameters that are too small to address the current demand. Consequently, the problem of overloading is prevalent. The problem of effluent flow is worsened by the lines serving the industrial areas (in Lusaka and Ndola) that discharge fatty and oily industrial waste into the system. In addition, the problem of poor maintenance of sewer pipes has resulted in rainfall infiltration and occasional overloading at peak flows.

Lastly, it is noteworthy that the departments that are in charge of sewerage and water services are inadequately staffed in most of the councils covered, particularly in Kalulushi (see below). Related to the manpower problem, the water and sewerage sections of almost all the councils are operating without sufficient and appropriate essential requisites such as protective clothing, adequate drainage rods for unblocking sewers, transport to move materials and personnel, etc.

With respect to drainage, the existing drainage facilities in most councils were constructed a long time ago and suffer from poor maintenance. The on-going road rehabilitation programme in Lusaka and Ndola includes the restoration of the drainage systems and the construction of new ones.

#### *5.2.2.5 Electricity*

Presently, sub-national governments are not involved in electricity generation and distribution. This responsibility is being handled by a parastatal company: Zambia Electricity Supply Corporation (ZESCO). Most urban areas are served with electricity, although the actual coverage at the household level is such that the majority of people still do not have access to this form of energy. The situation is even worse in rural areas.

According to available information, ZESCO had, by 1994, 130,000 homes on its grid, of which 50 percent were in low-income areas, but not in low-income homes. (The World Bank, Poverty Assessment, 1994). Electrification is a symbol of success, and only the wealthy can afford the cost of initial connections. At the national urban level, 39 percent of homes were connected to the grid. ZESCO estimated that a further 70-80,000 units could be immediately connected to the grid (i.e. those structures in low-income areas where connections could be safely made).

#### 5.2.2.6 Solid Waste Disposal

By legislation, councils are responsible, through their public health departments, for the collection and disposal of solid waste in all areas under their jurisdiction, except in the ZCCM areas (in Kalulushi and Ndola). Various problems associated with solid waste disposal in studied councils have been identified. Firstly, the collection of solid waste by the councils from residential and industrial areas stopped many years ago, and residents have resorted to various ways of garbage disposal. These entail dumping in pits; burning; and uncontrolled, indiscriminate dumping into road reserves, open spaces and undeveloped sites. For Lusaka and Ndola, the largest of the six studied councils, it is common to find roads blocked by solid waste. The dumping on roads and road pavements is increasingly becoming common in other towns too. Indiscriminate solid waste dumping within and around the high-density unplanned settlements constitutes the highest threat to environmental degradation.

The following constraints were reported in the councils studied as factors that explain the weak capacity in solid waste disposal:

- *Inadequately staffed Public Health Departments.* At Kalulushi, for example, the Public health Department has no Director, Deputy Director, Chief Health Inspector and Senior Health Inspector.
- *Inadequate refuse trucks and supervisory vehicles.* In Livingstone, the City Council has only two 'ailing' landcruisers for the whole City Council and one old saloon car, being shared by the Town Clerk and Mayor. The only truck available for refuse collection is currently used during funerals to take mourners and the dead to the burial grounds, often conflicting with the refuse collection tasks for which it was meant.
- *Lack of protective clothing, tools and implements.* This has reduced the quality of work and workers' morale.

The negative environmental impact resulting from the absence of sustainable solid waste management can be devastating. In Livingstone, for instance, the following health indicators measuring the quality (or lack of it) of solid waste disposal were given: diarrhoeal diseases prevalent rate per month - 12.3 percent; number of eye diseases prevalent rate per month - 4.1 percent; quantity of refuse accumulations per month - 46 tonnes; and number of rat infection complaints received per month - 3 percent.

#### 5.2.2.7 Roads and Transport System

The poor state of roads is a common characteristic of the Zambian system. The areas covered by councils - namely, the township roads (i.e. those within the councils' catchment areas) - are even worse. Due to poor maintenance and shoddy workmanship, most council-serviced roads have potholes, which have significantly reduced the flow of traffic and have had a toll on the physical state of vehicles. Much of the activity in the area of road resurfacing is financed by donors.

Urban local authorities are responsible for the maintenance of all roads within their boundaries, including trunk roads. These roads have deteriorated through lack of funding, and the authorities face major problems in bringing them up to acceptable standards. The responsibility of local authorities/councils, on the other hand, is limited to maintaining ungazetted roads in the rural areas and townships. This secondary road network, of mainly rural 'feeder roads,' forms an important component of the national road system, representing around 16,000 kilometres (or 44 per cent) of the 36,000 total kilometres of roads within the country.

The standard of maintenance of the feeder road network is certainly not adequate. As the system has deteriorated, there has been a consequent loss of public confidence in sub-national governments, and some pressure has been exerted on the Roads Department (under central government) to take over their road maintenance functions. The Department is resistant to this idea and instead wants the capacity of the councils to be strengthened, on the ground that maintaining feeder roads is properly a local authority function.

The major sources of financing for the road networks in Zambia are JICA, Road Sector Investment Programme (ROADSIP) and National Roads Board. The JICA funding has been mainly for the rehabilitation of the roads network in Lusaka in three phases. Phases I and II have already been completed, and Phase III (65.1 km) is under implementation. Currently, the Lusaka City Council is benefiting from the resurfacing of township and city centre road networks from money generated, not by the Council, but the National Roads Board. Ndola City Council and Chibombo Council have also benefited in recent years from roads rehabilitation through this source of funding.

National Roads Board was set up to manage and monitor the collections and budget allocations from the fuel levy funds. The National Roads Board Maintenance Programme is in its fourth Phase since 1995. The 1998 Urban and Feeder Roads Maintenance Programme, covering all the nine provinces throughout the country, covers a total distance of 3,288.48 km. The cost of the programme's civil works is estimated at K8.1 billion, and consultancy and supervision at K303.96 million. With respect to the sample councils in this Study, only Lusaka (80.8 km), Ndola (39.5) and Livingstone (26.6 km) are participating in this central government-administered Programme. The other councils are covered under the National Roads Board. The criteria for allocation of financial resources to each district is unclear, but seems to be based on approximate distance of 50km of roads. The scope of work for each piece of road, based on an acceptable rate, determines the actual amount of money allocated to each district.

The National Roads Board allocations for urban and feeder roads amounted to K9 billion in 1998. The balance of K610 million is being used by MLGH to meet carry-over expenses from the 1997 activities and variations to ongoing civil works for both 1997 and 1998.

### **5.3 Indicators on the Comprehensiveness of ISP with Respect to Consumer Needs**

#### **5.3.1 Conditions at the National Level**

The comprehensiveness of the current infrastructure and services provision (ISP) ought to be appreciated in the context of Zambia's historical background in this field. At independence in 1964, the Zambian Government inherited limited socio-economic and physical infrastructure that was designed to cater for the small urban population and to support mining operations. While the population has grown rapidly since then, there has not been a corresponding expansion in ISP, let alone its maintenance. Infrastructure was principally provided by the central government and local authorities, which did not have adequate resources to meet the service demands of the rapidly growing population. Specifically, the Ministry of Works and Supply and the Ministry of Local Government and Housing, in conjunction with the Ministry of Finance, have been instrumental in providing the necessary materials (i.e. office equipment, plant and machinery) to the sector ministries and field officers at both provincial and district levels and in the construction of roads, buildings and water supply schemes. Considerable profits realised from copper sales during the 1960s and early 1970s enabled the government to embark upon the ambitious programme of developing the country's infrastructure. Notwithstanding these developments, a number of factors have contributed to the slow pace of ISP and its maintenance. These include the following:

- inadequate financial resources provided for the development of the infrastructure under the current poor state of the economy (see Chapter Four);
- the lack of policy on infrastructure development, particularly with respect to the interface between central and sub-national governments, on the one hand, and the public versus the private sector, on the other;
- the lack of a comprehensive development and maintenance strategy;
- the inability to fully utilise and maintain equipment because of inadequate technical skill;
- the lack of a placement programme for tools, equipment, plant and machinery; and
- a rise in the rate of vandalism of public property owing to high levels of poverty in communities and attitudinal problems.
- 

The result of the above has been a deterioration in the state of infrastructure, thus rendering service providers incapable of providing quality services to the growing population.

The comprehensiveness of ISP with respect to consumers need remains a vexing problem for all the sub-national governments in Zambia. Severe constraints, mainly financial and institutional, have affected adversely the ability of the sub-national governments to adequately deliver quality services. The study of the six samples

councils indicates poor performance in service delivery across the board for all the types of services provided.

### 5.3.2 Overview of Sample Sub-National Governments

Comparative analysis of the performance, over time, of the individual sub-national governments could not be undertaken because data for the previous years was unavailable. However, general observation and the findings of earlier studies indicate that the provision of quality services to consumers is on the decline. For example, access to safe water in urban areas decreased from 70 percent of households in 1985 to 66 percent in 1990. In addition, access to sanitation in urban areas decreased from 76 percent of households in 1985 to 66 percent in 1990. Table 5.1 gives the estimated performance indicators of the six sample councils for various components of ISP, based on interviews and the scarce data available. More detailed descriptions of ISP, by type, are provided below for the six sample councils.

**Table 5.1 Estimation of Performance Indicators Concerning ISP**

COMPONENT	INDICATORS OF NEEDS SATISFACTION
<b>1. Lusaka, Population: 1,016,000</b>	
Water Supply	3
Sewerage	2
Solid Waste Management	1
Health Facilities	2
Fire Cover	1
Road Maintenance	2
Social Services	2
<b>2. Ndola, Population: 393,000</b>	
Water Supply	2
Sewerage	2
Solid Waste Management	2
Health Facilities	2
Fire Cover	1
Road Maintenance	2
Social Services	3
<b>3. Chibombo, Population: 4,058</b>	
Water Supply	3
Sewerage	3
Solid Waste Management	3
Health Facilities	3
Fire Cover	1
Road Maintenance	2
Social Services	2
<b>4. Kalulushi, Population: 180,000</b>	
Water Supply	2
Sewerage	3
Solid Waste Management	2
Health Facilities	2
Fire Cover	1
Road Maintenance	2
Social Services	2
<b>5. Livingstone Population: 120,000</b>	
Water Supply	3
Sewerage	3
Solid Waste Management	1
Health Facilities	3
Fire Cover	1
Road Maintenance	2
Social Services	2
<b>6. Petauke, Population: 249,542</b>	
Water Supply	1
Sewerage	2
Solid Waste Management	2

Health Facilities	3
Fire Cover	1
Road Maintenance	2
Social Services	2

**Note:** The scale of 1 to 5 has been used, the best quality service being a 5 and the worst service provision being 1, thus: 5 = excellent (81-100 percent); 4 = very good (61-80 percent); 3 = good (51- 60 percent); 2 = fair (41- 50 percent); 1 = poor (less than 40 percent).

### 5.3.2.1 Water Supply

The problems the various sub-national governments face in their attempts to provide an adequate water supply and wastewater disposal service are very similar. Discussions held with the officials confirmed that mechanical equipment in every water treatment plant and pumping station has deficiencies. Because of these deficiencies, water is generally delivered only for a few hours per day in most councils, and its quality is inadequate. Table 5.2 gives a summary of the water production and demand situation for the six sample sub-national governments.

**Table 5.2: Daily Water Production and Demand for all Sample Councils**

COUNCIL	DESIGN CAPACITY (M3/DAY)	ACTUAL PRODUCTION (M3/DAY)	CAPACITY UTILISATION ( percent)	WATER DEMAND (M3/DAY)	ACTUAL WATER DELIVERED (M3/DAY)	PERFORMANCE ( percent)
Lusaka	200,000	140,000	70	212,366	112,000	60
Ndola	218,200	132,000	60	160,000	79,000	49
Kalulushi	N/A	N/A	N/A	18,000	9,000	50
Petauke	2,320	622	27	2,200	498	23
Livingstone	50,000	36,000	72	20,000	12,000	60
Chibombo	N/A	N/A	N/A	N/A	N/A	N/A

A water situation analysis of each Council is given below.

#### *Ndola*

Comparatively speaking, Ndola is fairly well serviced by its water system, in comparison with the other towns on the Copperbelt. All conventional (planned) areas are fully serviced, and, in addition, the unplanned areas have some type of access to piped water. Ndola is the most studied town among the selected sample councils. The details below provide some useful data that could easily be generalised for councils with similar attributes. An estimate of the water demand for Ndola was made in 1996 by a consultant, Norplan A.S., using specific consumption data. The resultant demand calculations are shown in Table A-5.1 in the Annex.

The water consumption by industrial, institutional and commercial consumers was estimated at 20,000m<sup>3</sup>/day.<sup>65</sup> The losses of 30 percent of net demand are representative of a well-operated system practising active leakage control. The actual figure for Ndola, therefore, should be higher. Ndola has a pressurised distribution system of 24 hours a day. The actual input to the system of treated water was measured in January 1996 to a total of 132,400m<sup>3</sup>/day, equivalent to 348l/c/d. This amounted to 52,000 m<sup>3</sup>/day, indicating an extremely high leakage level in the system. The design capacities and actual production are given in Table A-5.2 in the Annex.

<sup>65</sup> This figure was not based on accurate measurements and was probably on the high side.

Ndola water supply is based on two principal sources: surface water from Kafubu River, treated at Itawa water treatment plant and Kafubu water treatment plant; and ground water from Misundu I & Misundu II. Lake Ishiku has been abandoned. Plans are underway to construct a new water scheme at Bwana Mkubwa to replace Lake Ishiku. The production from Itawa is marginal and decreasing, and this water source often dries up during part of the year. Design capacity far exceeds estimated need for water calculated in Table A-5.1 in the Annex. In view of the inadequate supply to parts of the City, it can be concluded that the distribution system needs attention. Table 5.3 below shows the water audit for Ndola at January 1996.

**Table 5.3: Projected Water Audit for Ndola, January 1996 (pop.381,000)**

Category	l/c/d	m3/day
Domestic	110	41,830
Industrial, Commercial		
Institutional	52	20,000
Leakage/Waste	185	70,570
Total	347	132,400

Source: NORPLAN A.S. (Consulting Engineers and Planners), 1996, Leak Detection Study in Pilot Areas, September 1996.

During the Team's visit to Ndola, it was confirmed that the Council was unable to deliver adequate and quality water supply because the water equipment and infrastructure was in a serious state of disrepair due to lack of maintenance and rehabilitation. For instance, at Misundu, out of the 21 boreholes, only 12 (or at most 14) are operating. At Kafubu Water Works, out of five high lift pumps, only three are operating. The equipment that was installed in 1964 and 1966 has been poorly maintained and has never been replaced; hence, the sand filters are not working, and the chemical dosing plant is not operational. Consequently, water is only disinfected (chlorinated), but not coagulated with aluminium sulphate. Similarly, at Itawa Water Works, which was commissioned in 1955 and upgraded in 1958, only two of the six high lift pumps are operating.

#### *Lusaka*

Water for Lusaka is supplied mainly by the Lusaka Water and Sewerage Company (a subsidiary of the Lusaka City Council); JICA, using community participation components; and by an NGO called Prospect that operates under CARE International. This project is mostly aimed at peri-urban areas. The estimated water demand for Lusaka is just over 212,000 cubic metres/day, as opposed to the actual production of 140,000 cubic metres/day. The estimated water demand for Lusaka is shown in Table 5.4.

**Table 5.4 Estimated Water Demand Calculations - Average Daily Demand for Lusaka**

CATEGORY	POPULATION	SPECIFIC CONSUMPTION (L/c/d)	WATER DEMAND (CUBIC METRE/DAY)
High cost	178,040	300	53,412

Medium cost	237,386	200	47,477
Low cost	474,772	150	35,608
Non-conventional	292,732	40	11,869
Industrial, Institutional Commercial			15,000
Sub-total	1,186,930		163,366
Losses, 30 percent			49,000
Base average daily demand			212,366

Source: Lusaka Water and Sewerage Company, Lusaka

The population figure of 1,186,930, which is derived from CSO 1990 census and projected, is generally on the low side (the population of Lusaka is presently slightly above 2 million inhabitants. The specific consumption figures are the minimum as supplied by LWSC. Thus, the estimation of water demand would have been high if the maximum specific consumption figures and the higher population estimate for Lusaka were used.

The design capacities and actual production of water for Lusaka are given in Table A-5.3 in the Annex.

Lusaka water supply is from two principal sources: surface water from Kafue River, some 50 kilometres away, and groundwater from 52 boreholes. The design capacity is 200,000 cubic metres/day consisting of 106,000 cubic metres/day from Kafue Water Works and 94,000 cubic metres/day from the boreholes. The actual production works out at 140,000 cubic metres/day, with 70 percent efficiency. The actual water delivered to consumer points is estimated to be 112,000 cubic metres per day, allowing for 20 percent unaccounted for water losses in the distribution system (leakages, illegal connections, etc.) This gives coverage of 60 percent for water actually delivered *vis-à-vis* the estimated water demand.

The Lusaka Water and Sewerage Company's central project, Lusaka Water Supply Rehabilitation Project, financed by two loans from the African Development Bank Group, consists of five major components:

- rehabilitation of existing installations, including boreholes, pump stations, reservoirs, pipelines and disinfecting facilities;
- a master planning system for the water and sewerage systems, including mapping and hydraulic modelling of the existing networks;
- leak detection and re-metering programmes;
- computerisation of the accounting and billing systems and the development of a computerised MIS; and
- construction of a headquarters building, stores and workshop facilities.

### *Livingstone*

The estimated water demand for Livingstone is 15,200 cubic metres/day, in contrast to the actual production of 12,000 cubic metres/day, giving coverage of 78 percent. The design capacity of water supply is 50,000 cubic metres/day. Livingstone water supply is from two pump stations on the Zambezi River. Pump station I was installed in 1958 and is obsolete.

The rehabilitation of the water and sewerage system in Livingstone is perhaps the biggest project under the Livingstone City Council. This project was begun in early 1998 and is being undertaken by a company known as Apollo at a cost of K1.6 billion. The major works under this project involve the complete overhaul of the two lines that pump water from the Zambezi to the water works and the rehabilitation of the sewerage system. The current water system in Livingstone was constructed around 1938, and the line has since been corroded, resulting in the loss of huge amounts of water from the pump station to the distribution points. Funds for this project were sourced from the World Bank and NORAD.

#### *Kalulushi*

The estimated water demand for Kalulushi is 18,000 cubic metres/day as opposed to the actual production of 9,000 cubic metres/day, representing coverage of 50 percent. This clearly shows that consumer needs are well above what the infrastructure is able to deliver. Kalulushi Municipal Council (KMC) buys all its water requirements from the mining company, Chibuluma Mine Plc. The mining company has two main sources of water supply: surface water from Kafue River and the underground mine. KMC buys raw water, which is then treated by the Council and fed into a reservoir of 11,000 cubic metres/day capacity. About 20 percent of the 11,000 cubic metres/day of pumped water is lost through leakage and downtime due to the poor operational conditions of the treatment plant and pumping house. As a result, the quality of the water delivery is very poor, very hard (with a Ph of 8-9) and has a very high proportion of suspended solids (20-22 percent). The water from the underground mine requires adequate treatment in order to reduce the high proportion of suspended solids.

At present the only source of water for Kalulushi is the ZCCM supply, which supplies 2.7 megalitres (ml) treated water from Mwembeshi River and 15 ml treated water from 7 Shaft. The quality of water from 7 Shaft is very hard and, in some cases, treatment is not to the required standard. The total water supply from ZCCM is 17.7 ml, and this amount is insufficient. Surface water sources such as Mwambashi River, northwest of Kalulushi; Kalulushi Stream, south of Kalulushi; Mindolo Dam in Kitwe; and groundwater extraction north of Kalulushi from the Artisan Well are potential additional sources of water for Kalulushi and Chibuluma. The Council is also examining the Mwambashi River, and ground water extraction findings have been completed.

Another infrastructure worth noting is the Chambishi Water Treatment Works that was commissioned in 1965 and has a capacity of 6,000 litres of water per day. There are two sources of raw water supply: the Kafue River and industrial water from Chambishi Mine. Both sources are managed by the mines, while Kalulushi Municipal Council treats the water and supplies the treated water to Chambishi residents. However, there is need for the Council to begin managing the Kafue water intake since Chambishi Mine has been privatised.

### *Chibombo*

Water in Council townships is supplied from boreholes. The supply and installation of water pumps and drilling of boreholes was done by specialised water companies in the private sector. The digging of wells is undertaken by the department of Water Affairs and is mostly funded by the central government. However, where NGOs come in to provide infrastructure and service in this component, contractors are hired to dig the wells and install mono pumps.

The figures for estimated demand for Chibombo could not be obtained. However, it is clear that the demand for water is higher than supply because there is water rationing. The source of water supply is from the boreholes in the townships and wells in the rural areas nearby.

In a bid to provide water to as many people as possible in all areas of Chibombo District, a large number of wells have been distributed to villages. In order to secure the wells and keep them in good working order, all wells have been entrusted in the hands of water committees on behalf of the communities. It is the duty of the water committees to ensure that the wells are safely kept and maintained at all times.

### *Petauke*

Water supply in Petauke is divided into two categories: Township Water Supply and Rural Water Supply (RWS). The Township Water Supply (TWS) has just been handed over to the Council by the Department of Water Affairs (DWA). The RWS is provided by the Council and DWA through funds provided by UNICEF. The programme is executed by the Petauke D-WASHE Committee.

The estimated water demand for Petauke is 2,200 cubic metres/day, while the actual production is 622 cubic metres/day, representing coverage of only 28 percent. The Council derives its water from eleven boreholes, of which only three are operational.

### *5.3.2.2 Solid Waste Management*

#### *Lusaka*

On the assumption that the refuse generation rate averages 0.5 kg/c/d, it is estimated that 1,700 tonnes of refuse is generated per day. However, the Council is able to collect only 160 tonnes per day, giving coverage of about 9 percent. The inventory and condition of equipment presently available for disposal of solid waste to cover a population of about 2.1 million people is as follows:

- Three 4-tonne tractors and trailers (runners) – fair
- One 5-tonne Tipper Truck (non-runner) – poor
- One 10-tonne compactor (runner) – fair
- One side Loader (non-runner) – poor
- One Skip Lift (non-runner) - very poor
- Two utility vehicles (runners) – fair

The Council reported that ideally it requires 80 refuse collection vehicles to meet its disposal demand.

### *Livingstone*

Solid waste disposal in Livingstone is handled by the Department of Public Health and Social Services. To a limited extent, there has been some form of community participation through a non-governmental organisation known as Push-Care International that, in the past, assisted the Council with a sanitation-related programme. In this programme, the community is contracted to remove refuse and clear drainage systems in settlement areas like Malota, and, in return, they are given payment in the form of food.

Solid waste management in the city, however, is being hampered by factors like lack of transport. Currently, there is only one refuse truck, which consistently breaks down and also is used as hearse to transport bodies and mourners to and from the graveyard. Table A-5.4 in the Annex gives statistics on solid waste in Livingstone.

Discussions with Livingstone City Council officials revealed the following refuse generation rates:

- High-income areas - 00.9 kg/c/d
- Medium-income areas - 0.7 kg/c/d
- Low-income areas - 0.4 kg/c/d

Based on the above figures, the estimated solid waste generated for the City of Livingstone is 1.4 tonnes per day. However, the Council is able to collect only 700 kg of refuse per day, giving coverage of 50 percent.

Presently, Livingstone has the following equipment for solid waste disposal:

- 1 refuse collection truck (runner) - fair
- 2 vacuum tankers (non-runners) - poor

To perform adequately, the Council stated that it requires the following equipment:

- 14 Refuse collection trucks
- 2 vacuum tankers
- 2 utility vans

In the area of refuse removal and vacuum tanker services, the Council intends to start sub-contracting companies to carry out the task of refuse collection. The Council admits that it has no capacity to carry out this civic responsibility because of inadequate financial, human and technical resources.

### *Ndola*

Ndola City Council's coverage for solid waste disposal is very poor, as the Council has only one tipper truck, which is also used for other works. The council was unable to give a precise estimate regarding the solid waste generated or quantity of refuse the Council is able to collect.

### *Chibombo*

Refuse disposal poses no problem, as most residents use pits to dispose of solid waste.

### *Kalulushi*

No data is available on the Council's capacity for solid waste disposal. In interviews, however, the Council admits that the delivery of this service is poor due to non-availability of sufficient refuse disposal equipment and transport.

### *Petauke*

Refuse collection is provided by the Council. However, due to the lack of refuse trucks, the market and public places are the only areas of coverage. At the residential level, the Council does not collect refuse.

#### *5.3.2.3 Fire Cover*

None of the councils in the sample had fire-fighting capacity. The councils' lack of capacity in this area has been demonstrated by their failure to deal with several major fires in the past. All the councils reported a shortage of fire-fighting equipment and insufficient financial and manpower resources as the main reason for their failure to attend to this service. The experience of Lusaka, the 'best equipped' Council in the sample group, would shed light on this state of affairs.

Lusaka's inventory of fire-fighting equipment and its condition is as follows:

- One fire tender (without water tank)- good
- One fire tender (with water tank) - fair
- One sky lift - poor
- One utility vehicle – fair

To provide this service effectively, the Council stated that it requires the following:

- Three fire tenders without water tanks
- Three fire tenders with water tanks
- One ambulance
- One sky lift
- Three utility vehicles
- Two motorcycles

#### *5.3.2.4 Roads*

All sample councils reported serious problems with respect to their responsibility for the proper provision and repair of roads within their areas. Examples from some of the examined councils below are representative, not only of the other councils in the sample, but also of the rest of the country. It is noteworthy that councils like Lusaka that used to provide public transport no longer extend this service.

### *Livingstone*

Roads repair has been neglected over the years, resulting in a very serious state of disrepair. The Council, in conjunction with institutions like the National Roads Board, Roadsip and the Chinese Government, has embarked on a major rehabilitation of the road network in Livingstone. A total of 97 kilometres of road network in the City is expected to be rehabilitated under this project. In 1995, the Council carried out another project that restored 30 kilometres of the road network.

More recently, some roads have been repaired. For example, Mose Street was recently rehabilitated at a cost of K30 million. Part of the funds for this project came from the Roads Board, while the remainder came from Council's internal resources. Plans are also underway to rehabilitate other major roads in the city once funds are received from the National Roads Board and/or the ROADISP.

#### *Chibombo*

The private sector, through the central government, is involved in the construction and maintenance of roads in Chibombo District. Due to insufficient funding and weak technical capacity, the involvement of the Chibombo District Council is minimal and largely confined to resurfacing work because the Council's Works Department lacks the capacity to carry out such works. There is, at present, a 347 km European Union-funded Roads Rehabilitation Programme is underway in the district, of which 180 km have so far been covered. G.M. International Contractors have been contracted to undertake the rehabilitation works.

The rehabilitation, construction and maintenance of roads in Petauke District is being discharged by the Council with funds provided by the National Roads Board from the fuel levy. The actual physical works are executed by private contractors. The same applies to funds provided to the District by the Feeder Roads Project under the United Nations Development Programme (UNDP).

#### *Kalulushi*

Kalulushi Municipal Council has a relatively extensive network of roads. Kalulushi District has three tarmac state roads: Kalulushi Road, Kalengwa Road and Kalulushi/Chambishi Road. There are 23 District Council roads with paved surfaces (tarmac), while there is one earth road. There are 48 gravel roads and six tracks.

In recent years, the Council has benefited from the National Roads Board financing of roads rehabilitation. Some roads have been graded, while the Luapula Road was recently resurfaced by Phoenix, a private company. Feeder roads in the peri-urban areas have also been graded. Since some parts of the District are mining areas, the mining company maintains these roads. Under this category, there are 32 mine roads with paved surfaces, 25 earth roads and 48 gravel roads. The District has 5 bridges and three in the peri-urban areas.

#### *5.3.2.4 Sewerage and Sanitation*

All sample councils have problems in the areas of sewerage and sanitation. In Lusaka, this function is being undertaken by the Lusaka Water and Sewerage Company, and the problems described earlier in this Chapter obtain. For Livingstone and Ndola, the situation is similar. However, in these two councils, large externally funded projects are underway that attempt to address the growing urban problem of poor sewerage services provision. As an illustration of one rural- and one urban-based council, Chibombo and Kalulushi are described below.

#### *Chibombo*

The existing sewerage system was installed about 25 years ago when the last batch of houses in both Chibombo and Chisamba Townships were built. Council has been using its own resources and internal labour to maintain the system. In 1994, the Council

contracted Andrew Kurt to rehabilitate its sewer system in Chibombo and Chisamba Townships at a cost of K24 million.

#### *Kalulushi*

The Kalulushi Township area, which is located approximately 14km from the City of Kitwe, has existing water-borne sanitation that is inadequate in many respects. The adjoining Chibuluma area, which is approximately 9km from Kitwe, has neither piped water supply nor water-borne sanitation. Sanitation is by pit latrines. A sewerage scheme for Kalulushi area was planned in 1950 and implemented in 1952. It later became evident that the ever-increasing demand due to population growth relating to mining activities of the then Chibuluma Division of Roan Consolidated Mines Limited (Now ZCCM) led to some piecemeal and haphazard development of the sewerage system. The problems caused by the rapid development of the township and its effects on the limited sewage treatment facilities were felt by the mining company. As a result, in 1973, a further study incorporating proposals for future development in respect of sewerage treatment was proposed. The proposals were then implemented by the construction of sewage treatment ponds to supplement the capacity of the conventional sewage treatment works already in existence. Despite these developments, the increasing population of Kalulushi and the poor maintenance record of the sewerage system have resulted into reduced capacity of the system.

Kalulushi District uses the Lift Pump Station No. 2, which was constructed by ZCCM. The laying of sewerage pipes was also undertaken by the mines. This was done in order to improve the constant overflowing of sewer effluent, especially in the low-cost residential areas. The current sewerage system consists of 37.5km of main branches that drain sewerage from the catchment areas. However, before April 1996, unblocking of sewer lines was done by the mines, while operation of the sewage lift pump station is performed by Council employees. However, all works pertaining to the running of the lift pump station have been taken over by Council following the privatisation of the mines, a development that puts a functional strain on the already weak Engineering Department of Kalulushi Municipal Council.

Chambishi area, another responsibility of the Council, has a water-borne sanitation system catering for a population of over 40,000 inhabitants. The mechanical sewerage treatment plant was commissioned in the early 1970s, and it is now out of operation because of numerous problems. The agitating pumps are not working, and most of the pipes are either broken or simply out of use. The Council has made proposals to either carry out extensive repairs or replace the plant with oxidation ponds. The Chambishi Sewer treatment plant, thus, requires attention, as it has been unable to fully meet consumer needs for many years now.

#### *5.3.2.5 Educational Facilities*

As earlier indicated, the provision of educational facilities is almost exclusively the responsibility of central government and the private sector. There are also several mission schools. Sub-national governments' role in this sector is almost exclusively in the area of pre-schools, but, even here, the magnitude of involvement is marginal. One of the sub-national governments, namely Kalulushi, reported a sizeable involvement in

educational facilities provision, mainly in collaboration with other providers. Kalulushi's involvement is described with some detail below.

The Ministry of Education caters for the entire community, with 37 primary schools, 3 senior secondary schools, 1 junior secondary school and 1 private school run by Zambia Consolidated Copper Mines. Kalulushi District offers facilities for hearing-impaired pupils at St. Joseph's School for the Deaf. This school is composite, with classes from pre-school to grade 12. This boarding school enrolls pupils from the whole country of Zambia. Presently, the school hopes to establish a National Resource Centre. The Sisters of St. John the Baptist manage the school.

Two secondary schools have been started by the community, namely Chambeshi Secondary School and Chati Secondary School, which has attained the status of a senior secondary school. The school is supported by ZAFFICO, a timber plantation company. The school is being administered by both Kalulushi Constituency and Lufwanya Constituency in Ndola Rural West.

## **5.4. The Issue of Affordability of ISP**

### **5.4.1 Introduction**

The issue of affordability for infrastructure and public services must be analysed in terms of overall cost of living trends and household spending priorities. The development in the economy of Zambia in recent years shows (see Table 5.5) that, despite the income measured by the Gross National Income (in the statistics of the National Accounts) recording growth in nominal terms in the years 1996-1997, inflation has increased even faster. The result has been a continued reduction in real purchasing power.

**Table 5.5: Gross National Income at Constant Prices (1994=100)**

Gross National Income (Constant Prices) in billions of Kwacha					
Year	1994	1995	1996	1997	1998
	2241	2190	2334	2412	2364

Inflation does not affect all types of goods with identical strength. Housing (which includes rent and electricity), education and medical care, for instance, show different development patterns, as illustrated in Table A-5.5 in the Annex. The combination of the development in nominal income and the different price components influences the consumption pattern of households through the relative prices of the various goods in combination with consumers' basic preferences, which are again influenced by norms, habits and opinions of what is reasonable to pay for the various goods and services. An analysis of the results of this rather complex process can be based on the statistics on household expenditures and the development in households' allocation of their income to various goods and services.

Households are constrained by the size of their income (both actual and potential). A sharp increase in relative prices for basic goods (such as food, water and clothing) can

push consumption in a direction opposite to the expected norm; that is, if prices increase for a good compared with other goods, its relative share of consumption is reduced. This opposite reaction appears, at least in some years, to have prevailed in Zambia. In the light of the very severe economic situation of many households, price increases, particularly of food, exhaust the possibilities to purchase other goods. This might be the explanation for the very high share of food, as well as the considerable increase in the share of food, of the total consumption that can be observed over time (see Table A-5.6 in the Annex).

Thus, the average nominal income in 1991, 1993 and 1996 was K6,690, K33,595 and K113,443, respectively. For the same years, the shares devoted to food was 58, 69 and 65 percent, respectively; to housing was 17, 8 and 8 percent, respectively; to education was 3, 5 and 3 per cent, respectively; and to medical care was 1, 1 and 3 percent, respectively.

The different sub-components of household expenditure are of special interest to the issue of affordability of local government infrastructure and service provision. The development of these sub-components is shown in Table 5.6. The share of the total consumption of households devoted to rent declined, as the total allocation to the housing expenses dropped over the years since 1991. Much the same can be said about allocation to expenses such as water bills. The Table further illustrates a disaggregation of the housing costs.

**Table 5.6: Expenditure Shares (percent) for Selected Items within the Housing Costs Group**

	1991			1993			1996		
Expenditure/income	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban
Housing Share of Overall Expenditure	17	11	19	9	4	11	8	4	10
<b>Component of Housing Expenditure</b>									
Rent	25	7	28	26	5	30	27	4	34
Water	5	1	3	7	3	8	7	0	9
Electricity	6	5	6	10	5	11	14	8	17
Candles	1	1	1	2	1	2	4	3	5
Paraffin	10	40	5	14	48	8	10	24	5
Charcoal	14	7	15	30	9	33	28	52	20
Firewood	1	1	2	2	2	2	1	2	1
Other	40	39	40	8	21	6	9	8	10
<i>Housing total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: National Inventory and Rehabilitation Study, 1997

#### 5.4.2 Service Provision: The Case of Water and Sewerage Services

The question of affordability of ISP should be understood in the context of demand of the different consumer groups for the services provided. The Department of Water Affairs attempted to calculate the potential water demand of urban households according to income type. The estimated demand figures are presented in Table 5.7. A noteworthy aspect from the Table is that low-income communities possess a much lower potential demands for water. Presently, water supply in Zambia is biased against

the poor with priority being given to the minority that live in high cost residential dwellings.

**Table 5.7: Estimated urban domestic demand for water per capita by type of connection**

DEMAND	INFORMAL HOUSING	LOW COST HOUSING SINGLE TAP	LOW COST HOUSING MULTIPLE TAP	MEDIUM COST HOUSING	HIGH COST HOUSING
	Lcd	Lcd	Lcd	Lcd	Lcd
Drinking	5	5	5	5	5
Bathing/washing	10	20	25	50	90
Toilet	-	-	30	30	40
Cooking/clean	10	15	15	20	40
Laundry	5	10	10	20	40
Basic demand	30	50	85	125	215
Garden water	-	10	10	15	45
Other uses	-	5	5	10	20
Add. Demand	-	15	15	25	65
Total demand	30	65	100	150	80

Sources: DWA Standardisation Committee for Water Supply, Lusaka, undated.  
Mongu Water Supply, Mongu, April 1993.

Illegal connections are very common, particularly in high-density settlements, and it is presently uneconomical for the utility company or council to disconnect them. It is also worth observing that, unlike in other countries, the delivery and sale of water in tankers has not taken root in Zambia; hence, the supply of clean water is still restricted largely to piped water. It is, thus, hard to estimate the amount low-income households would be willing to pay for water, especially in communities that are not yet connected to the conventional water supply. What is quite interesting is that the major defaulters on payment for water include central government departments and state-owned parastatals. Under such circumstances, it is difficult for the government to advocate need for cost-recovery among ISP providers, let alone advocate the culture of paying for services.

Calculations of the increase in water tariff rates between 1988 and 1993 were made by DWA and revealed that increases have been progressive. Data showed that the real increase for low-cost housing was 2.6 percent, compared to a rise of 7.9 percent for high-cost housing. Increases of 1.5 percent and 0.7 percent, respectively, were registered for single tap and communal tap housing. Considering the fact that low-income households have only 30 percent of their incomes available for expenditure other than food (1991 Priority Survey), the impact of the above (albeit nominal) increases is considerable. Presently, 70 percent of Zambians are poor, and more than half of them are unable to access a nutritionally adequate food basket. This is a good indicator of their ability to afford the cost of ISP.

Willingness to pay can be defined as a measure of consumers' assessment of the monetary value they attach to a service, which in turn serves as a benchmark for the service provider. The concept of affordability is closely related to willingness to pay. Many studies regress willingness-to-pay measures with affordability indicators such as income.<sup>66</sup> It is in this sense that these concepts are closely linked. Further, respondents

<sup>66</sup> See the Feasibility Study on Water Supply and Sanitation for 15 towns in Southern Province, 1997

use criteria such as the overall importance of a service or item in comparison to other household budget items, the amounts used to pay for it, its quality and its availability. Hence, willingness and ability to pay are not objective facts, but are respondent-defined concepts.

National statistics on household utilisation of certain facilities such as water taps, toilet facilities and methods of solid waste management are presented later in this chapter. The bulk of the section covering willingness and ability to pay, as well as issues pertaining to tariff structures, focuses on water. Water is one service provided by all the sub-national governments, and it is used here to illustrate the issue of ability and willingness to pay for ISP. It is noteworthy that where sewerage charges are levied, they are usually incorporated in water bills. As for solid waste management, no comprehensive and consistent provision of such a service exists in Zambia. Waste collection is typically a reactive service by the sub-national governments, particularly when there has been a disease outbreak. This was the case in March 1999, when a cholera outbreak caused the Lusaka Urban District Council to acquire 50 refuse collection trucks to collect existing piles of solid waste in the City.

Previous studies have found a number of inconsistencies in the water tariff structure. The tariff structure in these studies reveals little association between amounts paid and the income levels of the respondents. This has an implication for the measurement of ability to pay for service provision, as correlating income levels to tariff structure does not reveal what is intuitively expected. In a more subtle sense, this inconsistency affects willingness-to-pay measures, as respondents who receive an adequate service and are fully aware of the deficiency in the tariff system have incentives to indicate that they are not willing to pay more for improved services.

Due to limited time and budgetary constraints, this Study has not attempted to undertake a survey of the ability and willingness to pay for ISP in the six local authorities examined (although the TOR seem to demand this exercise to answer the issues raised). Rather, this Study presents, in a general manner and using national data, proxy measures for the ability and willingness to pay, using water and sanitation as the basis of calculations and generalisations. This effort is founded on the findings of earlier studies in Zambia on the subject.

### 5.4.3 Ability to Pay

#### 5.4.3.1 *Engel Ratios<sup>67</sup> for Housing Costs*

Ability to pay is proxied by several indicators in this study. Firstly, Engel ratios, which represent the importance households attach to individual items or services of consumption, are presented. These are expressed as proportions of the total household consumption budget. An overview of Engel ratios for other housing costs and energy expenses is presented in Table 5.8. Evidently, rental charges and charcoal expenditures dominate housing expenditure costs.

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<sup>67</sup> The Engel ratio for a particular item or group of items is the proportion of total expenditure spent on that item (or group of items).

**Table 5.8: Percentage Expenditure Shares of Housing Costs and Household Energy**

	Rent	Water	Electricity	Candles	Paraffin	Charcoal	Firewood	Household Maintenance
All Zambia	2.16	0.56	1.12	0.32	0.8	2.24	0.08	0.72
Rural	0.16	0.0	0.32	0.12	0.96	2.08	0.08	0.32
Urban	3.4	0.9	1.7	0.5	0.5	2.0	0.1	1.0
Urban Low Cost	3.4	0.7	1.2	0.6	0.7	2.6	0.2	0.7
Urban Medium Cost	2.7	0.99	2.07	0.27	0.18	0.81	0.09	1.89
Urban High Cost	4.0	1.3	2.7	0.1	0.1	0.5	0.0	1.2

Source: Derived using data from the 1996 LCMU Survey CSO, Ministry of Finance and Economic Development.

Rental charges form the prominent expenditure item for urban households, while, for rural households, charcoal expenditures form the prominent part. As earlier noted, the focus, as far as ability to pay and willingness to pay measures, will be on water and sewerage service provision. The proportions of expenditure on water and sewerage services are shown in Table 5.9 for the years 1991, 1993 and 1996. Urban areas show a steady increase in the household budget allocation to water and sewerage service consumption. Table 5.10 further disaggregates the urban areas into three broad areas of residence: namely, low-cost, medium-cost and high-cost.

**Table 5.9: Percentage Expenditure Share of Water Payments**

	1991	1993	1996
All Zambia	0.51	0.63	0.56
Urban	0.57	0.88	0.9
Rural	0.11	0.12	0.0

Sources: Derived using data from the 1991 and 1993 Priority Surveys and 1996 LCMU Survey CSO, Ministry of Finance and Economic Development.

**Table 5.10: Percentage Share of Household Expenditure for Water Services by Stratum - Urban Zambia**

Stratum	Percentage Share
Urban Low Cost	0.7
Urban Medium Cost	0.99
Urban High Cost	1.3

Source: Derived using data from the 1996 LCMU Survey CSO, Ministry of Finance and Economic Development.

Zambian households spent about 0.56 percent of their income on water payments in 1996. Urban households, in particular, spent about 0.9 percent of their income on water charges. Household surveys indicate a steady increase in proportions allocated to water charges by urban households between the years 1991 and 1996. After disaggregating urban households into low, medium and high cost areas, a trend emerges where the proportion of household expenditure allocated to water charges increases by these areas of residence, respectively.

#### 5.4.3.2 Sources of Water Supply

Access to certain services is both an indicator of comprehensiveness of service and ability to pay. The Living Conditions Monitoring survey showed that, in urban areas,

83 percent of high cost houses had own tap water, while 72 and 38 percent of the medium cost and low cost houses had own tap water, respectively. The trend of public water tap usage is a complete reversal of the own tap usage, with 34 percent of the low cost areas and 12 and 9 percent of the medium and high cost areas using such sources for water, respectively.

Table A-5.7 in the Annex presents statistics on sources of water supply for urban areas, while Table A-5.8, also in the Annex, presents sources of water supply by poverty status. For the purpose of this Study, it is noteworthy that Lusaka, Ndola, Kalulushi and Livingstone fall under the urban category, while Chibombo and Petauke are in the rural category. Notwithstanding this, it is worth observing that the majority of the ISP beneficiaries in these urban areas in the sample local authorities belong to urban low cost or urban medium cost categories in Table 10 above.

#### *5.4.3.3 Type of Toilet Facilities Used*

84 percent of urban high cost areas had access to flush toilet facilities, while 75 and 35 percent of the medium and low cost areas had access to such facilities. Expectedly, the usage of pit latrines is highest in low cost areas. The trends remain the same when type of facility is cross-tabulated with poverty status. Table A-5.9 in the Annex presents statistics on the type of toilet facilities for urban areas, while Table A-5.10 presents types of toilet facilities by poverty status.

#### *5.4.3.4 Method of Garbage Disposal*

Method of garbage disposal seems to indicate a rather low incidence of service provision. Over 50 percent of all urban households dispose of their garbage using a pit. Dumping is a common method of disposal especially in low cost areas, with 42 percent using this method. Only 7 percent of the households in these areas have their garbage collected. About 20 and 26 percent, respectively, of the households in medium and high cost areas have their garbage collected. Tables A-5.11 and A-5.12 in the Annex indicate the percentage distribution for urban households by method of garbage disposal and the percentage distribution of households by poverty status and method of garbage disposal.

#### *5.4.3.5 Factors Influencing Ability to Pay*

The National Inventory and Rehabilitation Study compiled statistics on factors that influence consumers' ability to pay. The most significant factor affecting households' ability to pay was other budgetary priorities. A considerable proportion of households in Luapula, North-Western and Southern provinces cited disagreement with the bill as a factor influencing their ability to pay. Mistakes in bills were factors cited as affecting ability to pay in Central province. Table 5.11 presents factors that influence ability and willingness to pay by province.

**Table 5.11: Factors Influencing Ability and willingness to Pay**

PROVINCE	OTHER PRIORITIES	DISAGREE WITH BILL	MISTAKES IN BILL	OTHER	NOT APPLICABLE	TOTAL
Central (includes Chibombo)	21	5	11	26	37	100
Copperbelt (includes Ndola & Kalulushi)	29	4	6	10	51	100
Eastern (includes Petauke)	41	0	6	12	41	100
Luapula	8	17	0	21	54	100
Lusaka (includes Lusaka City Council)	26	3	3	17	51	100
Northern	27	8	3	46	16	100
North Western	5	13	2	25	55	100
Southern (includes Livingstone)	30	11	5	30	24	100
Western	47	2	0	30	21	100

Source: National Inventory and Rehabilitation Study, 1997

#### 5.4.3.6 Disconnections

Disconnections could serve as a rough indicator of default levels regarding the settlement of bills for ISP. For water supply, the highest number of water disconnections was recorded in Copperbelt province (where Ndola and Kalulushi are located), with 67 percent of the households surveyed reporting a disconnection. Luapula, Eastern and Western provinces indicated over 40 percent of the households surveyed had disconnections. The most common reason cited for disconnections was household budgetary constraints. Households that used public water taps suffered from the free rider problem that consequently led to failure to pay the required bills and, hence, to disconnection. This was most prominent in Eastern Province (where Petauke is located) where 21 percent of the households suffered disconnections because of budgetary constraints. Table A-5.13 in the Annex shows the number of households that have experienced disconnections in water services, while Table A-5.14 gives statistics on the reasons for disconnection, by province.

#### 5.4.4 Willingness to Pay

The National Inventory and Rehabilitation Survey found that a broad majority of respondents expressed displeasure with their present water supply system. Many complained of inadequate supplies and dry taps. Hence, willingness to pay for an improved service is related to addressing these expressed dissatisfactions. In the data given below, this form of willingness was correlated to household income. It was generally observed that the proportion of households willing to pay more for improved services was much higher than not willing to do so. Two thirds of the provinces had the majority of respondents willing to pay more for improved service in the K30,001 - K70,000 income bracket. The Copperbelt and Southern provinces had the majority of respondents willing to pay more for improved service in the K100,000 or more income bracket. A third category of responses represented respondents who may be willing to pay more for improved service conditional on the service. This, perhaps, represents the degree of scepticism among respondents about the services provided by sub-national governments. This scepticism is highest amongst those earning K100,000 or more in Southern, Western, Luapula and Copperbelt provinces. It is worth noting that, for the majority of provinces, conditional willingness to pay more for improved service is positively correlated to income level. Tables A-5.15(a) to (e) in the Annex show willingness to pay more for improved service by income group for each province.

#### 5.4.5 Tariff Distribution of Sub National Governments

Zambia is one of the most urbanised countries in Africa. This has implied population pressures on existing infrastructure, as a number of unplanned settlements have mushroomed in urban areas. Tables A-5.16 (a) to (e) in the Annex show percentages of respondents by their type of housing and amounts they pay for their water and sewerage bills. In the introduction to this chapter, inconsistencies were highlighted pertaining to the billing system by sub-national governments in their provision of water services. The tables bring out the inconsistencies earlier highlighted. It can be seen that for Central, Eastern, Luapula and North-Western provinces, most people in medium and low cost housing pay between K1001 and K5000 per month for their water. Lusaka and Southern Provinces have most people in the medium, low and informal housing<sup>68</sup> paying between K1001 and K5000 for water. Northern and Western provinces have most people in the high, medium and low cost housing areas paying within the same range. Evidently, no clear distinction is made between type of housing area and tariffs charged by sub-national governments. It is also evident from the tables that service provision to informal housing areas is very limited, as indicated by the comparatively smaller percentages of respondents who indicated paying some charge for water services. These informal housing areas harbour a component of unplanned structures.

The distribution of the actual charges paid by households shows that eight provinces had most households paying charges in the range of K1,001 to K5,000. Only Copperbelt province had most households paying more than K10,000 in charges. In the case of sewerage charges, Central and Copperbelt provinces had a significant number of households paying over K10,000. Lusaka, North-western and Luapula provinces had a significant number of households paying between K1,001 and K5,000. Tables A-5.17(a) to (e) in the Annex show the percentage of respondents by monthly water and sewerage charges and tariff distribution for each province.<sup>69</sup>

#### 5.4.6 Other Measures for Comparative Purposes

Proxy measures of overall economic development looked at per capita energy consumption and density of telephone connections. Per capita electrical energy consumption showed a steady decline between 1994 and 1996. Except for the increase between 1993 and 1994, another steady decline was recorded between 1994 and 1996. Density of telephone connections showed a decline between 1995 and 1998 in urban areas, while the rural areas showed no change in the same period.

##### 5.4.6.1 Energy Consumption

Table 5.12 shows the population figures for the years 1995-1996. In obtaining population projections for the non-census years, the assumption of an annual growth rate of 3.31 between 1995 and 2000 is made. The assumed growth rate for the period 1990-1995 is 3.27.<sup>70</sup>

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<sup>68</sup> Informal housing represents unplanned housing areas and a small portion of planned areas

<sup>69</sup> Note that the category 'other' appears large in many cases, as it covers respondents not paying sewerage charges as well as those not on water borne systems.

<sup>70</sup> Details of these assumptions are found in *Demographic Projections, 1990-2015, CSO*.

#### 5.4.6.2 Density of Telephone Connections per 100 Persons

Table 5.13 shows the density of telephone connections in Zambia in recent years, 1995-1998.

**Table 5.12: Per capita Energy Consumption**

Year	Total Population	Per Capita Energy Consumption tonne of oil equivalent per person	Total Electrical Energy Consumption, Tonne of Oil Equivalent
1990	7759167	0.0678	567112
1991	8012892	0.0646	517317
1992	8274913	0.0641	529432
1993	8545503	0.0639	545785
1994	8824941	0.0738	650914
1995	9340000	0.0680	635279
1996	9649154	0.0573	567107

Energy consumption figures source: Ministry of Energy and Water Development. 1997.

**Table 5.13: Density of Telephone Connections in Zambia<sup>71</sup>**

Year	All Zambia	Urban	Rural
1995	0.9	1.5	0.4
1996	0.8	1.3	0.4
1997	0.9	1.2	0.4
1998	0.8	1.2	0.4

Source: ZAMTEL.

## 5.5 Infrastructure Inventory Concerning Central and Sub-National Governments

### 5.5.1 General Situation

It was not easy to establish the total provision of ISP for the most recent years in all of the sample councils. Data availability varies from council to council and, it is never comprehensive. The time and resource factors could also not facilitate the collection and reporting of a comprehensive inventory concerning both central and sub-national governments. For an inventory of central government investments in the catchment areas, one needed to go well beyond the council domains to government ministries and departments at both the headquarters and the province since records of investments are rarely centrally located. Even more demanding, there are a number of projects that are national in character (although located within the councils' jurisdictions) and that are managed by the more central portfolios of central government such as the Ministry of Finance and Economic Development and the Ministry of Works and Supply. Previously, the now defunct National Commission for Development Planning was in charge of co-ordinating such projects, but even then, very serious project development/co-ordination problems existed. This state of affairs is complicated even further by the fact that a number of donors administer their support programmes independent of government and have tended to set up parallel structures alongside those of central and/or sub-national governments, with personnel from their own

<sup>71</sup> Note that the above figures include mobile phone connections supported by ZAMTEL. The 1998 figure is provisional, as it excludes a small component provided by a new telecommunications operator: TELECEL.

countries assuming strategic management and co-ordination functions.<sup>72</sup> In fact, almost all major capital investments/developments in the six sample councils were donor-funded and were controlled by the central government, even at the level of implementation within the sub-national authorities' jurisdiction. It is also noteworthy that where councils were directly in charge, they, in general, poorly maintained an inventory of their infrastructure services stock. A comprehensive assessment of the amounts invested during the last 10 years in the key infrastructure components at both the central and sub-national government levels would require a much wider time horizon and substantial resources to undertake, as it requires time-consuming in-depth probing of rather disjointed data from a variety of formal and informal sources.

However, in line with the TOR, attempt is made to develop an *indicative* inventory of the physical volume of the key infrastructure components. Even this was not easy to obtain; only Lusaka was able to make available their fixed assets register. For water infrastructure, data in an earlier study by Interconsult (Zambia) Ltd<sup>73</sup> covering Lusaka, Kalulushi and Petauke have been useful.

## 5.5.2 Situation in the Sample Councils

### 5.5.2.1 Lusaka

Lusaka City Council reported the following infrastructure developments in the past 10 years within the city:

<ul style="list-style-type: none"> <li>• New City Market</li> <li>• 18 clinics around the city</li> <li>• 850 km tarred and 750 km gravel of road network within Lusaka</li> <li>• Merzaf Housing Unit</li> <li>• 3 water projects in the city</li> <li>• Civic centre office complex</li> <li>• Local Government and Housing Ministry Office Complex</li> <li>• Central Stores, Warehouse and Office complex</li> <li>• 16 taverns</li> <li>• 3 Bust stops</li> </ul>	<ul style="list-style-type: none"> <li>• 3 Market Offices</li> <li>• 49 Civic/Community/Nursery /Craft Centres</li> <li>• 4 Libraries</li> <li>• 29 Open Areas and Parks</li> <li>• 8 Roundabouts</li> <li>• 130 Shared quarters/houses not offered for sale</li> <li>• 10 medium cost houses under Construction</li> <li>• 10 high cost houses under Construction</li> </ul>
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The amount spent on the above infrastructure projects cannot easily be provided by the Council because the projects were donor-funded, and the finances were controlled by either the donors or the central government. This is actually a clear demonstration of the degree, or more appropriately, the lack of fiscal autonomy and decentralisation in sub-national finances in Zambia.

<sup>72</sup> For a better appreciation of the situation at the macro and project level, see a recent book, Saasa, O.S. & Carlsson, J. (1996), *Aid Relationship in Zambia: A Conflict Scenario*, Uppsala, Nordiska Africa Institute.

<sup>73</sup> Interconsult (Zambia) Ltd in joint venture with Gauff Ingenieure, "National Inventory and Rehabilitation Study on Water and Sanitation", Final Report, Lusaka, 25/09/96.

No major infrastructure has been funded by Council. Even the existing investments suffer from serious preventive maintenance limitations. Consequently, all major infrastructure in the City of Lusaka is run down.

#### 5.5.2.2 *Ndola*

The Central Government assisted the Ndola City Council negotiation for a grant from the Chinese Government for the construction of 218 low-cost houses in Masala compound, which were completed in 1997. Furthermore, the government, through the National Roads Board, has been assisting the Ndola City Council with developing and maintaining the road network. For instance, in 1995 the Council received grants from the central government amounting to K120 million; in 1996, K350 million; and in 1997, K300 million. In the last 5 years, this has been the only assistance from the central government.

Donor support towards ISP in Ndola City has been considerable. Among these was a loan granted by the African Development Bank (AfDB) for the construction of Misundu Stage I and Stage II of the water works. The amount was US\$18 million over the 1981-1994 period. The World Bank also extended a soft loan of US\$ 2.9 million for the rehabilitation of the entire waterworks in the City of Ndola. This loan focuses especially on the rehabilitation of water pumps and on leak detection and repairs. In addition to this, the rehabilitation will involve repair of dysfunctional chemical dosing equipment at Ndola water works. The water system rehabilitation by the central government is being done in advance of the privatisation of the water supply utility.

The Project Urban Self Help (PUSH) and World Food Programme (WFP) also have assisted the Council in the field of roads and drainage systems rehabilitation and restoration. All their projects have been community-based. CARE International has also been active with projects involving the construction of houses and generally the upgrading of site and service residential areas.

In summary, Ndola City Council has identified the following projects in the area of ISP as having been undertaken in the past ten years.

- Purchase of one hotel and one motel
- Construction of two water works at Misundu I&II
- Maintenance of the road network- 500 km
- Construction of 238 low cost houses
- Creation of a new cemetery

#### 5.5.2.3 *Chibombo*

Like other councils, Chibombo has suffered from the absence of internally funded capital projects in the field of ISP. The little activity that is in place is being funded - and managed - by either the central government or donors. There is now an ongoing 347 km European Union-funded Roads Rehabilitation Programme for which 180 km have so far been covered. G.M. International Contractors have been contracted to undertake the rehabilitation works.

In the area of housing, the Council last undertook housing construction works some 24 years ago, when the central government was able to grant money to the Council to develop houses for staff, offices and other buildings.

In the area of water supply, little has happened in the past ten years. Many years ago, the supply and installation of water pumps and drilling of boreholes were done by specialised water companies in the private sector through external support. Similarly, the existing sewerage system in Chibombo was installed about 25 years ago when the last batch of houses in both Chibombo and Chisamba townships were built through a government grant. In 1994, the Council contracted Andrew Kurt to rehabilitate its sewer system in the two townships (Chibombo and Chisamba) at a cost of K24 million. Only half of this amount has so far been paid to the contractor due to Council's liquidity problems.

Notwithstanding the above poor record on infrastructure development in the past ten years, a large number of wells have been provided to villages within the Chibombo District area. In order to secure the wells and keep them in good working order, all the constructed wells have been entrusted in the hands of water committees on behalf of the communities. It is the duty of water communities to ensure that the wells are safely kept and maintained at all times. This method of water system management, involving the communities, has proved quite successful.

In summary, Table 5.14 gives an inventory of ISP within the Chibombo area in the recent years.

**Table 5.14: Inventory of recent ISP investments: Chibombo**

INFRASTRUCTURE	FUNDER	ESTIMATED COST
Sewerage		
Rehabilitation of sewerage system ,1994 involving: <ul style="list-style-type: none"> <li>• 05 Septic tanks</li> <li>• 15 Soak aways and sewers</li> </ul>	Ministry of Local Government and Housing	K24 million
Roads		
<ul style="list-style-type: none"> <li>• Rehabilitation of feeder roads (length: 214km), 1997/98</li> </ul>	European Union	K4.7 billion
<ul style="list-style-type: none"> <li>• Rehabilitation of Kalangwa Chipembi feeder Road (length): 35 km), 1995 -</li> </ul>	European Union	K400 million
aintenance of T2 – Chibombo - Masaka feeder Road (length: 28 km)	National Roads Board	K97 million

#### 5.5.2.4 Kalulushi

There has been limited project-related activity in the Kalulushi Municipal Council since it attained autonomous status from Kitwe City Council. Table 5.15 gives the projects of some significance that were undertaken in recent years.

**Table 5.15: Inventory of recent ISP investments: Kalulushi**

INFRASTRUCTURE	FUNDER	ESTIMATED COST
Water		
• Water Leak Detection Program	NORAD	-
• Water Rehabilitation Project	World Bank	US\$600,000
Roads		
• Feeder roads- 93.9 km	-	-
• Tarred roads- 14.2 km	-	-
Market		
Construction of new market	Micro Projects Unit	K100 million

#### 5.5.2.5 Livingstone

During the past ten years, Livingstone City Council, principally through donors, has made the infrastructure investments reflected in Table 5.16.

**Table 5.16: Inventory of recent ISP investments: Livingstone**

INFRASTRUCTURE	YEAR(S) started	FUNDER	IMPLEMENTER	ESTIMATED COST
<i>Water Supply</i>				
<ul style="list-style-type: none"> <li>Rehabilitation of Water Treatment Plant and Sewerage Pump Station. Involved complete rehabilitation of the water works and the sewerage pump station.</li> </ul>	1995	AfDB	Private Company (Spencorn)	K1.0 Billion
<ul style="list-style-type: none"> <li>Rehabilitation of sewerage system raw water, Libuyu Main and Airport Pump Station. The works are divided into four lots as follows: <ul style="list-style-type: none"> <li>LOT 1: Rising main minor works only (for Raw Water)</li> <li>LOT 2: Rehabilitation of Airport Pump Station</li> <li>LOT 3: Pressure zoning</li> <li>LOT 4: Sewerage collection system. Included here are service and partial replacement of sewerage pipe lines in Airport Compound, replacement of part of sewerage pipeline in Maramba Township and Nottie Broadie.</li> </ul> </li> </ul>	1998	World Bank NORAD	Private Company (Apollo)	K1.6 Billion.
Sulzer Water Pumps (in the New Intake Plant): supply/installation	1992	L'Stone Council	L'Stone Council	K5 million
<i>Road Rehabilitation</i>				
<ul style="list-style-type: none"> <li>Roads rehabilitation of the following roads: <ul style="list-style-type: none"> <li>Musi-o-Tunya Road</li> <li>Airport Road</li> <li>Nakatindi Road</li> <li>Linda Road</li> <li>Maramba/Libuyu Road</li> </ul> </li> </ul>		L'Stone Council  Central Govt.	L'Stone Council	K1.0 billion (approx.)
<ul style="list-style-type: none"> <li>Road rehabilitation- 97 km</li> </ul>		National Roads Board  ROADSIP		K30 million
<i>Land Alienation and Servicing</i>				
<ul style="list-style-type: none"> <li>Alienated and allocated the following areas: <ul style="list-style-type: none"> <li>Over 1000 plots: Ellaine Brittel area</li> <li>250 plots: Mundase Estates</li> <li>50 plots: Villa Ground</li> <li>70 plots: Airport Road</li> <li>200 plots: Lusaka Road</li> </ul> </li> </ul>	1988 – 1998	L'Stone Council  Applicants through fees	L'Stone Council	K3 billion (approx.)
<i>Others</i>				
<ul style="list-style-type: none"> <li>Rehabilitation of markets</li> </ul>	1988 – 1998	L'Stone Council	L'Stone Council	not known

#### 5.5.2.6 Petauke

The Petauke District Council itself (as opposed to the central government and donors) has not invested anything in key infrastructure components, such as water and sewerage, in the last 10 years despite the fact that capital budgets are made every year. There has not been much central government and donor support for Petauke District Council in the past ten years. The little investment in the District has been through central government departments under provincial administration, and the Council has

not been involved. These central government departments control both their recurrent and capital budgets, to which council has no access. Thus, it is difficult, within the limited financial and time scope of this Study, to establish what development expenditure Petauke District has incurred over the last 10 years. Only two projects were reported as having involved Petauke District Council in any way, and both of them were externally funded. Table 5.17 gives an inventory of recent ISP investments in Petauke District, all of which were funded externally.

**Table 5.17: Inventory of recent ISP investments: Petauke**

INFRASTRUCTURE	YEAR(S) started	FUNDER	IMPLEMENTER	ESTIMATED COST (Kwacha)
• Kalindawalo Rural Health Centre (RHC): water and sanitation	1993	Micro Project Unit (GRZ)	Community Participation	5,902,348
• Menje Primary School: Rehabilitation	1993	Micro Project Unit (GRZ)	Community Participation	21,305,160
• Nyamphande RHC: Maternity block construction	1993	Micro Project Unit (GRZ)	Community Participation	5,051,155
• Chikuse Post Office: Construction	1993	Micro Project Unit (GRZ)	Community Participation	3,617,340
• Chikuse Water and Sanitation	1993	Micro Project Unit (GRZ)	Community Participation	3,680,000
• Chikuse Road upgrading	1993	Micro Project Unit (GRZ)	Community Participation	14,497,370
• Tiritonse Primary School: Rehabilitation	1995	Micro Project Unit (GRZ)	Community Participation	58,766,801
• Minga Water Supply	1996	Micro Project Unit (GRZ)	Community Participation	49,329,160
• Chassa Secondary School: Water supply	1995	Micro Project Unit (GRZ)	Community Participation	117,259,0790
• Chipungu RHC: Construction	1996	Micro Project Unit (GRZ)	Community Participation	136,320,746
• Minga Primary School	1997	Micro Project Unit (GRZ)	Community Participation	81,880,200
• Nyamia Primary School	1996 –	Finnida	Community	18,000,000

	1997		Participation	
• Chilimanyama Primary School		USAID	Community Participation	4,712,222
• Msanzala Bridge		USAID	Community Participation	18,000,000
• Roads sector	1996	GRZ	Community Participation	540,000,000
• culvert construction and road maintenance	1995	Economic Expansion in outlying Areas (EEOA)	Community Participation	61,000,000
• water and sanitation.	1996	UNICEF	Community Participation	496,187,528

### 5.5.3 General Overview

The data in this section, albeit superficial, has revealed a number of facts with respect to the inventory of infrastructure provided by central and sub-national governments. Little capital investment in ISP has taken place in the sample councils, and, consequently, the state of infrastructure is generally poor. The preventative maintenance record of most councils is too weak to manage, in a sustainable manner, what is existing. Infrastructure and services provision has evidently not kept pace with population growth in the sample councils, a phenomenon that has introduced considerable stress on the limited and poorly managed facilities available.

### 5.6 The role of New Infrastructure Investment in Relation to Existing Stock

Sub-national government finances are in crisis and can barely support new investments. The infrastructure is in a serious state of disrepair due to the prolonged lack of maintenance and rehabilitation. There is real need for new infrastructure to meet the needs of the expanding population, particularly in urban settlements. However, the biggest challenge entails the maintenance of what already exists (for example, the need to repair paved roads and water supply systems).

Unable to undertake new infrastructure investments, the sub-national governments depend on central government subventions to fund the rehabilitation of roads and of water production and reticulation. The central government-sponsored investments are made on a grant basis. Currently, roads are receiving assistance under a Road Sector Investment Plan, to run for ten years, and from the Roads Board, which disburses allocations from the fuel levy. The current emphasis is on rehabilitation activities.

Because of chronic financial constraints that have dogged the councils, *there have been no significant new investments in most, if not all, the sample sub-national governments for many years now.* As clearly revealed in Chapter Four, whereas big councils direct approximately 95 percent of expenditure to recurrent spending, small ones use their resources exclusively for recurrent expenditure. As revealed in Table 4.2.2.A-D in the Annex, wages account for a large proportion of councils' recurrent expenditure. Table 4.2.3 has also shown that capital expenditures have remained

insignificant in all the councils. Such investment accounts, on average, for less than 10 percent of total expenditure, a proportion that is insufficient to meet even replacement capital. What is of particular significance, as revealed in Chapter Four, is that capital expenditure by the councils primarily covers the procurement of machines, equipment and furniture for general public services (mainly administration). Thus, it would be erroneous to necessarily associate capital expenditure figures as a proxy for enhanced ISP, since what is acquired is often not directly linked to the provision of services.<sup>74</sup>

With respect to the sample councils, capital expenditure, relative to the estimated stock of capital associated with the key components of ISP, is insignificant. Tables 4.2.3.A-F in the Annex clearly reveal this. For Ndola City Council and before the sale of council houses, for example, capital expenditure averaged 5 percent. It increased to 31 percent in 1996 although this rise was not due to expenditure by the council itself.<sup>75</sup> The annual capital expenditure figures for Ndola (Table 4.2.2.1.A in the Annex) show attempts to allocate some significant amounts to infrastructure investments for economic services (transport and roads) and community amenities and housing, particularly for 1995 and 1996 financial years. However, overall, there were no indication of major policies or measures implemented in order to increase the potential infrastructure and service provision.

Capital expenditure for Lusaka City Council averaged 10 percent of total expenditure per year in the past five years, although it was directed towards general public services, covering mainly administration. Discussions with the Lusaka City Council officials revealed that, although the council was aware of the important role of new investment in infrastructure, it had for many years no major plans for new investment. The only major new investment was the merzaf housing project, which ended as a financial disaster. The new city market, which was opened in 1997, was not really a council project, but a central government project built with donor support.

It is noteworthy that Lusaka and Ndola account for almost 100 percent of all sub-national governments' capital expenditure, meaning that the rest of the other 70 councils are spending almost nil at this level. The picture for Kalulushi, Petauke, Livingstone and Chibombo, for example, is dismal; in recent years, virtually nothing has been allocated to new investments in ISP, and none of these councils reported new capital investments from their budgets in recent years. The councils have depended heavily on government grants and (sometimes) donor support as sources of financing for their capital expenditures. The councils have not received any grants from central government for capital expenditure in years and, furthermore, have not been in a position to access money from their own resources or any other sources for this purpose. Perhaps because these grants have not been made available to the councils consistently and in adequate amounts for many years, there have been no major

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<sup>74</sup> Capital expenditures improved slightly over the 1996-98 period due to new capital spending using the revenue generated from the sale of council houses following a presidential decree.

<sup>75</sup> This resulted from the K1.3 billion Chinese government grant, routed through central government, for the construction of 218 low cost houses. The central government, through the Roads Fund, also spent K242 million on road rehabilitation in Ndola. In both cases, the money was not sent to Ndola City Council, and the Council was not involved in any way in the implementation of the projects, save for routine facilitation.

policies or measures implemented to increase the *potential* infrastructure and service provision, compared with the *actual*.

The lack of a deliberate policy regarding new investment in infrastructure and service provision is reflected in the patterns of capital expenditures incurred in recent years (see Table 4.2.3.D in the Annex). General public service has consistently received the largest share of capital expenditure; very insignificant amounts have been directed to the provision of services. Central government and donor-aided investments to sub-national governments tend to exclude councils from investment activities, investment decisions and priority setting. Table A-5.18 in the Annex gives approximate disbursements by donors to Zambia over the 1994-96 period.

In fact, local authorities do not consider these investments as their own. Even when the projects are completed, councils are not furnished with additional capacity to manage these investments. The added responsibility for operation and maintenance is usually not reflected in council operational budgets. It is therefore not surprising that many of these investments are ruined as soon as the central government or donor involvement is withdrawn. This is because services are not equated to either expenditures or charges.

## **5.7 Issues of ISP Tariff Policy**

### **5.7.1 Central Government Policy**

The stated goal of the government in ISP is the extension of services to all households in Zambia. At the national level, the government objective is to decentralise and commercialise ISP, particularly water. In urban areas, there are broadly two competing policy initiatives: privatisation and cross-subsidisation. Illustrations from the water sector would make clearer government policy in ISP. In larger metropolitan areas, including Lusaka and the Copperbelt cities, the target is privatisation of the water providers. The policy is most advanced in Lusaka, where water provision has been passed from the City Council to Lusaka Water and Sewerage Company (LWSC), a commercialised company owned by the Council. The small urban areas are under the Department Water Affairs (DWA), whose emphasis is the development of a policy of cross-subsidisation that will ensure water provision for low-income areas. Existing legislation for water resource management is considered inadequate. At the national level, policy formulation is limited by the absence of a defined 'water sector'. In urban areas, there is no legislation placing groundwater extraction under regulatory controls, and no tariff is imposed on those that privately extract this resource, a problem both in terms of water table levels and water quality. No policy or procedures exist for either the enforcement of, or penalty for the contamination of, water resources.

The National Water Policy<sup>76</sup> acknowledges that effective water tariff policies are a prerequisite for efficient resource allocation, guarantee for reasonable returns to water supplies and encourage conservation. As shown in Chapter Three, it is presently

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<sup>76</sup> The Government of the Republic of Zambia (1993) *The National Water Policy*. Ministry of Energy and Water Development. Lusaka

government policy to allow sub-national authorities to recover the full cost of service delivery. This is in line with the government policy of liberalisation in the provision of goods and services. With the exception of rates and personal levy that are statutorily determined, sub-national governments are allowed by legislation to review fees and charges without the hindrance of central government authorities. The Rating Act, Cap. 484 of the Laws of Zambia empowers a Council to make and levy an ordinary rate on all rateable property which is paid by the leaseholder of the property. This is a tax on property.

Despite the liberalisation in tariff setting, the central government still exercises control over the level of fees and charges that councils may levy through an administrative (as opposed to legislative) obligation to submit their 'proposals' to the Minister of Local Government and Housing for consideration/approval.

Cost recovery occurs when a utility operates in such a way that its revenue will cover operation, maintenance and depreciation on a long-term basis. However, even this is not sufficient for full cost recovery. The investment should make a profit for expansion and payment of dividends. The National Inventory and Rehabilitation Study in Water and Sanitation examined the operations of a number of water supply schemes and concluded that none would achieve full cost recovery by the year 2015 if capital costs were included.

Currently, nominal fees are charged for water and other infrastructure services. Revenues are limited due to both the impact of inflation and low payment rates. The Ministry of Finance has issued cost recovery guidelines, and it is current government policy to phase out funding for ISP operations and maintenance. Revolving funds were set up in July 1993 for all water systems.

## 5.7.2 Overview of Sample Councils

### 5.7.2.1 *The Current Macro Picture*

The revenue generation capacity of the sub-national governments is significantly dependent on the existing tariff policy and the performance of the councils at the level of collecting what is due. The breadth of the tariff and tax base is equally fundamental in the determination of sub-national authorities' revenue generation capacity. Chapter Four of this Report revealed that the increase in sub-national governments' revenue has, by far, lagged behind the rate of inflation, resulting in an average 5 percent decline in real revenues over the 1994-97 period. The revenue is primarily composed of user charges and fees.<sup>77</sup> Data in Chapter Four further showed that tax<sup>78</sup>, which declined by an average of 11 percent over the same period, was the second major source of

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<sup>77</sup> Statistics generated in Chapter Four shows that charges and fees, at K11 billion and K19 billion in 1994 and 1997, respectively, accounted for 46 percent of total revenue, on average, per year.

<sup>78</sup> Tax revenue consists of personal levy, property tax (rates) and trade and liquor licences. Personal levy is a tax on income and, therefore, is based on formal sector employment and self-employment in the council area. Tax rates in respect of personal levy, trade and liquor licences are established by act of parliament. Property tax rate is set by the local authorities themselves via a by-law, subject to approval by the central government.

revenue for councils. The analysis of the six sample councils revealed a similar trend, as revealed in Tables 4.2.4.A-D in the Annex. The decline in tax revenue has prompted councils to increase user fees from 31 percent in 1994 to 56 percent in 1998. However, this has not arrested the continuing decline in revenue especially in the light of the high inflation growth rate. It is noteworthy that the other revenue sources for councils contribute less than 5 percent of their total revenue.

As earlier noted, local authorities' tax rates are statutory. These rates are low and outdated, and, despite several representations from all the councils studied, government has reportedly been unwilling to adjust them. The rates applying presently are for 1976. The situation has been worsened by the fact that the aggregate central government transfers to councils have declined from 8 percent in 1994 to only 3 percent in 1998. It is evident that, generally, the cost of administration and collection of the paltry revenue surpasses what is netted.

User fees and charges (see Table 4.2.4.2 in the Annex) are an important - and growing - source for local authorities' revenue. For most councils, water supply charges are the largest item, contributing over 80 percent for Ndola City Council (Table 4.2.4.2.A in the Annex). The local authorities are empowered through the Local Government Act to set these fees and charges, which, as earlier indicated, can not take effect prior to approval by the Minister of Local Government and Housing. The same Act empowers the central government to amend or revoke such fees and charges or, indeed, any by-law set by a council. What this means, in effect, is that councils are unable to effectively set fees and charges due to interference from (a) the central government and (b) within the local authorities themselves by councillors.

Historically, the fees and charges for all the components of ISP have not been determined/calculated on the basis of any known rational formula, let alone considerations of the concept of cost recovery. The setting up of tariff policies in relation to ISP, thus, has proved to be a very difficult task for all the sub-national governments examined. Though all the sub-national authorities examined recognise the notion of cost-recovery in relation to previous expenditure, they are rendered ineffective in implementing such a policy because of interventions from the central government or the councillors. The problem is compounded by the fact that the tax base does not actually reflect the actual situation; the rates set are neither based on actual property values with respect to central government property, nor adjusted to reflect movements in macroeconomic aggregates like the high inflation levels. Hence, tariffs/rates/charges are not determined or calculated on a cost recovery basis; neither are the user-payments related to actual consumption or based on norms. Consequently, fiscal administration in the structure of local government taxes by the central government has continued to create uncertainties in maintaining the tax base. Without exception, *all* the sample councils in this Study lamented over what is perceived as the undue influence of political considerations in the determination of tariff levels for ISP. Therefore, the charges are 'political tariffs', as one of the senior official in Livingstone City Council metaphorically referred to them. Below are the ruling rates reported in the sample councils as of mid-1998. The rate of exchange then was around K1,900 to the United States dollar.

### 5.7.2.2 Lusaka

For Lusaka City Council, the following payments were operational as of mid-1998:

- Actual fees, charges/tariff
  - ◊ Rates: K0.5 as from 1997
  - ◊ Personal Levy: 1 percent of one's annual income up to the maximum of K15,000 per annum. The first K300,000 of one's annual income is exempt.
  - ◊ Refuse collection: K10,000 for hotels; K20,000 for commercial stands; and K40,000 for embassies
  - ◊ Water tariffs for Lusaka are given in Table 5.3.18.

**Table 5.18: Water: Lusaka Water and Sewerage Company Charges (per month)**  
(As of February 1999)

<b>Water Tariff - Monthly Charges</b>	
<i>Tariff 1: Commercial and Industrial Consumers</i>	
<i>Standing Charge (for metered supplies)</i>	
0 - 100,000 Litres per 1,000 Litres	590.00
100,001 - 170,000 Litres per 1,000 Litres	1100.00
170,001 Litres and over per 1,000 Litres	1500.00
<i>Tariff 2: High Density Residences with Communal Taps</i>	
Upgraded Areas	11,000.00
<i>Tariff 3: High density residences with individual taps</i>	
Per household/month	12,000.00
<i>Tariff 4: Low and Medium Density Residences and Special Connections</i>	
<i>Standing Charge (For Metered Supplies)</i>	
0 - 6,000 Litres per 1,000 Litres	210.00
6001-66,000 Litres per 1,000 Litres	420.00
66,001 - 100,000 Litres per 1,000 Litres	590.00
100,001 - 170,000 Litres per 1,000	1,100.00
170,001 - Litres and over per 1,000 Litres	1,500.00
Water Connections Charges	Connections to be charged at cost
<i>Water Deposits</i>	
Industrial commercial and special connection	300,000.00
Low and medium Density Residences	50,000.00
High Density Residences with individual taps	20,000.00
High Density Residences with communal taps	20,000.00
<i>Water Reconnection Fees</i>	
Commercial & Industrial Consumers	200,000.00
All other areas	50,000.00
Additional penalty: disconnected due to misuse of water	100,000.00
<i>Meter Inspection Fees</i>	
Standard fee (refunded if meter is found faulty)	40,000.00
<i>Sewerage Tariff: Monthly Charges</i>	
<i>Domestic Sewerage Tariff</i>	
0 - 6,000 Litres per 1,000 Litres	168.00
6,001 - 66,000 Litres per 1,000 Litres	336.00
66,001 - 100,000 Litres per 1,000 Litres	472.00
100,001 - 170,000 Litres per 1,000 Litres	880.00
170,001 - Litres and over per 1,000 Litres	1,200.00
Premises Discharging Trade Effluent	80 percent Of Water Consumption
<i>Sewerage Discharge by Vacuum Tankers</i>	
Per 1000 litres	3,300.00

Even in Lusaka, with a well-defined water tariff, metered services only account for a third of consumers. The rest are not metered, with the majority served by communal taps. This means that charges are based on individual households. This does make collections extremely difficult since residential locations in informal settlements are rarely fixed.

### 5.7.2.3 Livingstone

For the different services that Livingstone City Council offers to the community and residents, Table 5.19 gives the charges/tariffs, as of mid-1998. The Council charges a rate value of 1.5 ngwee in a kwacha on all categories of properties such as residential, commercial and industrial.

The ability of the consumer to pay for the services that Council renders to them has not been encouraging. The rate of defaulting on water charges is about 60 percent. The Council has given the following reasons for the high rate of defaulting by consumers of their services:

- non-affordability due to lack of resources;
- influence from politicians e.g. Ward Councillors, who often exert pressure on consumers not to pay for the services; and
- resistance from the consumers themselves, under the pretext of inadequate services being offered to them by the Council.

**Table 5.19 Monthly Charges for Livingstone City Council**

<u>Unmetered Premises</u>	
Water And Sewerage Charges	
• High density residences with individual taps:	
◊ Water: K5,115.00	
◊ Sewerage: K585.00	
• High Density Residences With Communal Taps	
◊ Water: K5,000.00	
• Medium And High Cost Residences	
◊ Water: K10,320.00	
◊ Sewerage: K780.00	
• Commercial And Industrial Premises	
◊ Water: K24,000.00	
• Communal Taps (Standing Pipes) - Peri-Urban Areas	
◊ Water: K2,000.00	
<u>Metered Premises</u>	
• High Density Residential Areas	
◊ 0-12 000 litres: K1,000.00	
◊ Above 12 000 litres: K200.00/1000 litres	
• Medium And High Cost Residential Areas	
◊ 0-18 000 litres: K2 000.00	
◊ Above 18 000 litres: K200.00/1000 litres	
• Commercial And Industrial Areas	
◊ 50 000.00	

<u>Water Reconnection Charges</u>		
Low Cost	-	10 000.00
High/Medium Cost	-	15 000.00
Commercial/Industrial	-	30 000.00
<u>Water Security Deposits</u>		
Low Cost	-	20 000.00
High Cost/Medium Cost	-	30 000.00
Commercial/Industrial	-	50 000.00
<u>Sewerage Charges</u>		
Sewerage Connection Fees		
Domestic	-	35 000.00
Commercial/Industrial	-	80 000.00
<u>Sewerage Unblocking Charges</u>		

Residential	-	10 000.00
Commercial/Industrial	-	50 000.00
<i>Desludging Inspection Chambers</i>	-	18 000.00
<i>Emptying of Soakaways Septic Tanks per Truck</i>		
Domestic	-	75 000.00
Commercial/Industrial	-	135 000.00
<i>Illegal Sewerage Connection</i>		
Domestic	-	100 000.00
Commercial/Industrial	-	500 000.00
<i>Illegal Water Reconnection</i>		
Domestic	-	100 000.00
Commercial/Industrial	-	500 000.00

Source: Written submission from L'Stone City Council, September, 1998

#### 5.7.2.4 Chibombo

The services that Chibombo Council offers that are chargeable are water supply, sewerage disposal and housing (All Council houses, except 9 which are reserved, were sold as a result of the presidential directive). The charges/fees over a period of four years from 1994 is tabulated in Table 5.20.

**Table 5.20: Tariffs and other Charges for ISP: Chibombo**

	1994	1995	1996	1997
Water Communal taps	K400 per family	K600 per family	K600 per family	K20,000 per tap
Low cost	K400 per house	K1,200 per house	K1,200 per house	K6,000 per house
Medium	K800 per house	K2,400 per house	K2,400 per house	K12,000 per house
Commercial	K3,000 per plot	K9,000 per plot	K9,000 per plot	K20,000 per plot
House Rentals				
Low cost	K9,000 per house per month	K21,600 per house	K27,360 per house	K27,360 per house
Medium	K18,000 per house per month	K27,360 per house	K36,000 per house	K36,000 per house
Sewerage Charges				
Low Cost	-	-	-	K2,000 per month
Sewerage Charges				
Low Cost	-	-	-	K2,000 per month
Medium	-	-	-	K2,000 per house per month

#### 5.7.2.5 Petauke

The rate levy for Petauke District Council is 0.0105 Ngwee in a Kwacha. Development charges are levied as shown in Table 5.21.

**Table 5.21: Rates for Petauke District Council**

CATEGORY	AMOUNT (K)
Residential Plots	100,000.00
Industrial/Commercial plots	120,000.00
Small Holding/Special User	150,000.00
Others (e.g. re-demarcations)	70,000.00

Petauke District Council has had serious problems in collecting what is due to it with respect to ISP. The factors that have contributed to poor revenue collection in the Council were reported as follows:

- lack of a comprehensive list of potential revenue sources;

- lack of information on the potential magnitude of each revenue source;
- very restricted resource base;
- insufficient number of revenue collectors and the lack of incentives for improved revenue collection rates towards successful revenue collectors;
- small population and taxable infrastructure;
- political interference in management efforts to recover various arrears from defaulters; and
- delays of ministerial approval of charges and fees and levies.

Some of the measures taken to improve revenue collection have involved sensitisation of the communities on the need for paying for services provided. Monthly collection schedules have also been prepared by the Council to encourage competition among revenue collectors and measure their performance. In addition, incentives have been given for good performance. It is the Council's view that in order to widen the resources base, such sources of revenue as motor vehicle licence, drivers' licences, etc. should be transferred to Councils. The Council also feels that central government should pay full value of rate levy for their properties in the district.

With respect to the ability of consumers to pay for infrastructure service, the Council believes that there is potential for compliance, despite the current poor record in this respect. However, communities often don't appreciate that services must be paid if the local authority is to continue providing them. This has been attributed to the pre-1991 period when services were provided almost free of charge. Because of this, the default rate of services in Petauke District has been very high, particularly on rents and rate levies. The default rate on rent has been 50 percent by private individuals and, interestingly, 80 percent by central government departments. For the rate levy, the default rate has been almost 100 percent. Many people do not understand why they should pay a tax on their property, and, therefore, they are not ready or willing to pay for this service.

#### 5.7.2.6. *Kalulushi*

Kalulushi provides water supply, sewerage, housing and education services to residents. The Council provides poor quality water, with suspended solids in the range of 20 percent instead of less than 8 percent, because the system has no sedimentation facility. Besides servicing Kalulushi, the Council also serves Chambishi, a mining township located 30 kilometres away. Table 5.22 gives the Council's water tariffs.

**Table 5.22: Kalulushi Water Tariffs 1997-8**

Category	Kwacha
High cost residences	10,000
Low cost residences	7,500
Commercial premises	13,000

The system is not metered, except recently at source. However, the meters are not read regularly, and supply is erratic. Collections are low, sometimes as low as 20 percent. A number of explanations were advanced. The Council reported that residents consider water as a free good, and, thus, the default rate is reported to be around 90 percent. The situation is worsened by the fact that the collection system is not foolproof and is prone to pilferage by council revenue collectors themselves, a phenomenon that is evident in other councils as well.

The educational services provided by the council are now limited to pre-school education and youth skills training, which could be discontinued once assistance by the German Volunteer Service ceases. The council runs 12 pre-school classes of 30 children each and charges per month K 2,000 for low cost and K 5,000 for high cost areas. These charges are used to pay volunteer instructors. Moreover, the Council provides life-long skills training in tailoring, bricklaying and carpentry. Each trainee pays K60,000 towards the cost of training. This charge does not meet the full cost of training.

#### 5.7.2.7 Ndola

The determination of water and sewerage tariffs in Ndola is similar to other local governments discussed above. The water tariff schedule for Ndola is shown in Table 5.23.

**Table: 5.23: Ndola Water and Sewerage Tariff, 1998**

Description		Kwacha
Low Density		15,000
Flats		11,250
Communal taps		1,500
Individual taps		2,000
Site and service connections		4,000
New Masala		3,000
Commercial Consumers		40,000
Industrial Consumers		112,500
High Consumption		500,000
Sewerage		
Households 40 percent of water		
Commercial premises, 60 percent of water		
Other charges		
Domestic deposits		50,000
Commercial/industrial		100,000
Water reconnection		
Domestic		25,000
Communal		100,000
Illegal water connection	Domestic	80,000
	Commercial	100,000
Un-blocking	Domestic	10,000
	Commercial	50,000
Septic tank evacuation	Domestic	20,000
	Commercial	75,000
	Peri-urban	
	<20 km	40,000
	>20 km	100,000
Outside city boundary		200,000

Regarding cost recovery, it was learnt that the council did not aim at 'cost recovery' but 'break even' because, if services were provided at full cost, residents would not be able to afford to pay. Moreover, it was also reported that councillors did not consider provision of services at full cost to be politically expedient.

### 5.7.3 General Overview

The following provides an overview of general findings with respect to tariff policies, strategies and customer behaviour. Examples are drawn from some of the sample councils. Focus is made on water, sewerage and educational tariffs/fees.

#### 5.7.3.1 Water and Sewerage Tariffs

In practice, water and sewerage tariffs in the sample councils neither reflect the cost, nor the true value of the commodity and, therefore, do not provide the right signals to consumers regarding the burden imposed on the delivery system. These tariffs do not provide a real return on the investment. In short, they do not provide for machinery and equipment replacement costs or for operational costs and efficiency. They do not provide for reliability and environmental standards or a fair return on investment, as required by the national water policy.<sup>79</sup>

With respect to accounting, this Study has established that, among the sub-national units studied, only Lusaka Water and Sewerage Company has qualified accounts. For the rest, accounting is on cash basis. Transactions are entered in books of account when receipt or payment of cash is involved. While this system is attractive for its simplicity, it did not reflect the true state of affairs of an undertaking, as not all associated costs are brought into account. No informed management decisions can be made based on incomplete accounting records. Financial data were not related to operational data, and the effectiveness of operations could, therefore, neither be measured nor assured. The Study Team observed that council officers in most of the councils lacked capacity to provide the information required in sufficient detail and quality. In most cases, information was not available.<sup>80</sup>

However, it was evident that water and sewerage tariffs were fixed for all types of consumers in all the councils studied, except to one-third of Lusaka consumers. In most cases, charges were not based on assessed water consumption for the different categories of consumers. Even where consumers had meters, these were not used for billing, regularly read or serviced. There was an attempt by administration to set charges for each category of consumers that reflected the historical cost of capital, operation and maintenance and inflation adjustment. However, these tariffs were invariably revised downwards by Councils, ostensibly to reflect civic and political considerations without regard to cost of providing the service. For example, in May 1997, the Ndola City administration recommended a 60-80 percent tariff increase, which was reduced to 30-50 percent across the board by Councillors. This pattern is common throughout Zambia and in all the other sample councils. The only exception is Chipata and Lusaka where water services have been commercialised, although, even

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<sup>79</sup> Ibid. p.25

<sup>80</sup> Where some of it was extant, it could not be readily obtained because more time was required to process it. It was in either an unusable format or revealed signs of inaccuracy or inconsistency.

here, full cost recovery is not operational. The consequence is that tariffs do not cover costs or offer incentives for the provision of the service at all. As a result, Ndola has been unable to add aluminium sulphate to the treatment of surface water for 5 years now because, Council officials revealed, charges do not cover the costs of treatment. In fact, they barely meet electricity cost of pumping services.

Even if water service charges were cost-recovering, cash collections do not exceed 60 percent of payments because of a number of factors. Consumers do not pay regularly. Ironically, government institutions have the highest delinquent bills. However, the lack of an accounting system to record basic financial and operational data needed to support effective management has been observed in almost all the six sample councils. Ndola and Lusaka are relatively well equipped in data generation and management, although the information is rarely used to influence Council decisions regarding tariff policy and the setting of charges. All these factors have contributed to poor financial performance of water supply operations. Other reported/established causes of poor financial performance in the six councils are lack of aggressive debt collection; non-affordability of the services; delinquent government water bills; and negative attitudes of consumers. Other reasons are the failure of water utilities to invoice all customers; failure to install or read meters; inefficient disconnection procedures; lack of cost data to support decision making; and the inability to implement tariff increases.

The culture of paying for services is still generally in its infancy in Zambia. There seems to be an ideological notion that water is a 'God given' free good. For instance, at the time of one of the visits to Ndola in late December, 1998 during the course of this Study, the Council Water Department was busy reconnecting defaulters because it was deemed to have mistimed disconnection on the eve of local government elections that were due a few days later. Obviously, the exercise served to confirm that residents would receive water even when they did not pay for it.

It is clear that ISP tariffs do not embody the principle of efficiency and equity. Secondly, existing facilities are not optimally used and maintained. There are no incentives for minimised losses or utilising available capacities fully. Third, demand management - through water-saving plumbing fixtures, flow control devices, educational programmes and progressive tariffs based on the marginal costs of water and sewerage - is absent in *all* the six councils studied. Finally, evidence of investment in wastewater removal infrastructure is also missing. In fact, there was no indication of a strategy for wastewater use.

At the bulk supply level, private sector involvement is limited to minor pump repairs and other maintenance through selective tenders, rather than competitive bidding. Private sector participation in operations and maintenance for leak repair and detection is only done in the capital city, Lusaka. A few private operators are also involved in septic tank evacuation because councils have failed to do so since their charges for this service are so low. In some cases, they cannot even meet the cost of transport fuel. It is expected that with planned privatisation of water and sewerage services in April 1999, tariffs will no longer be subjected to political influence and sub-economic levels. However, the importance of this reform will depend on the success of changes in operational management of sub-national governments.

The emerging picture is that service provision in the studied councils is not being provided on a cost recovery basis. In Kalulushi, for example, water supply charges would have recovered the cost of provision if consumer compliance had been universal. Consumers are unwilling to pay because of erratic supplies and poor water quality. This may suggest that an improvement in water quality and delivery could contribute to greater consumer willingness to pay.

Furthermore, the issue of affordability is crucial to provision of domestic water. Statistics in Chapter 4 indicate a surplus on water account. This would suggest that the revenues cover costs. This is far from the truth. In reality, the 'surplus' on the water account is because councils do not fully treat water. In Ndola, Kalulushi and Livingstone, water supplies do not meet the World Health Organisation standards. Although water is typically disinfected, sand filters and chemical dosing equipment do not function well. In Ndola, the thickness filter bed has been reduced, and treatment is only 60 percent of requirements. Surface water treatment plants have not added aluminium sulphate for almost 5 years now. The point is that suppliers are unable to afford provision of quality drinking water to residents. This contributes significantly to consumer behaviour.

Equally important, the fact that water supplies are not metered for a large proportion of consumers means that user payments are not related to actual consumption. In all the sample sub-national governments studied, fixed monthly water charges were the norm even where metres are fixed. Even Lusaka, which in an exception, has only a third of consumers charged according to consumption. In the case of Ndola, the installation of water meters is the responsibility of the consumer. Consumers have not provided water metres, and the council tariff has no provision for charges according to consumption. This means that the first step towards improving consumer willingness to pay for services is for the utilities to install water metres. The difficulty, however, will remain with regard to communal water points, where the free rider problem will be hard to overcome until authorities install at least one water point for each household. However, this hinges on a broader housing problem: the upgrading of informal housing settlements where the majority of urban residents, in fact, live.

Finally, it is evident from the discussion above that the pricing of sanitation services is still in its infancy. Not only are there few significant investments in solid waste removal, but also charges for these services are regressive and not related to services provided. For instance, as demonstrated above for Lusaka and Ndola (as is true in the other studied councils), sewerage charges are billed as a proportion of water tariffs. This means that the amounts paid are not necessarily linked to the quantity and quality of service delivered.

## **5.8 Conclusions**

This Chapter has highlighted a number of salient aspects of ISP by the public sector in Zambia. The following are particularly noteworthy:

- Most of Zambia's infrastructure facilities were created before 1974, when the economy was performing well. Following the

decline of the copper revenue that financed much of the investment in the country, the maintenance of infrastructure became unsustainable. Presently, the country's infrastructure is costly to maintain and operate.

- A number of factors have contributed to the slow pace of ISP and its maintenance. These include the following:
  - ◊ inadequate financial resources;
  - ◊ lack of a clear policy on infrastructure development, particularly with respect to the interface between central and sub-national governments, on the one hand, and the public versus the private sector, on the other;
  - ◊ lack of a comprehensive development and maintenance strategy;
  - ◊ inadequate technical knowledge to fully utilise and maintain the existing equipment;
  - ◊ lack of a placement programme for tools, equipment, plant and machinery; and
  - ◊ a rise in the rate of vandalism of public property, owing to high levels of poverty in communities and attitudinal problems.
- ISP is dominated by the state sector in a situation whereby the central government has delegated much of this responsibility to the poorly funded sub-national governments. Because of state dominance in services provision, the role of the private sector has remained quite marginal.
- Several councils have formed, or are now forming, utility companies that operate on commercial principles. For the two that are presently in existence in Lusaka and Chipata, considerable capacity is yet to be developed in the area of meeting community demand for the services that they offer.
- The magnitude of the deterioration in infrastructure provision in Zambia has most affected the poor, a group that constitute about 70 per cent of the country's population. Those that live in rural areas and the unplanned urban settlements are particularly affected.
- It is mainly poorer consumers who are currently paying their bills; non-payment is highest among the rich and, interestingly, among central government departments and state-owned parastatals. It, thus, becomes difficult for the government to meaningfully champion the need for cost-

recovery among ISP providers, let alone advocate the culture of paying for services.

- Councils hardly possess a comprehensive record of their infrastructure projects, principally because they are usually donor-funded and project finances are controlled by either the donors or the central government. This is actually a clear demonstration of the degree, or more appropriately, lack, of fiscal autonomy and decentralisation in sub-national finances in Zambia. This state of affairs is complicated even further by the fact that a number of donors administer their support programmes independent of government and set up parallel structures alongside those of central and/or sub-national governments. This state of affairs has made it difficult to access data for a comprehensive assessment of the amounts councils invested during the last 10 years in the key infrastructure components.
- Notwithstanding the above, it is evident that no major infrastructure projects have been funded by councils in recent years. Even the existing investments continue to suffer from serious preventive maintenance limitations. Consequently, almost all the major infrastructure facilities in the sample councils are run down. The infrastructure is in a serious state of disrepair due to the prolonged lack of maintenance and rehabilitation. The biggest challenge in ISP, thus, seems to entail the maintenance of what already exists: for example, the need to repair paved roads and water supply systems.
- With respect to tariff policy and despite the liberalisation in tariff setting, the central government still exercises control over the level of fees and charges that councils may levy through an administrative (as opposed to legislative) obligation to submit their 'proposals' to the Minister of Local Government and Housing for consideration/approval. Currently, only nominal fees are charged for water and other infrastructure services mainly due to political interference in tariff setting.

The next chapter examines the legislative and regulatory environments within which sub-national governments provide their services.

## CHAPTER SIX

### REGULATORY AND LEGISLATIVE ENVIRONMENT

## **6.1 The Legislative and Regulatory Framework**

The process of managing infrastructure and services provision is subject to a variety of both internal and external factors, and the *regulatory framework* is strategic as a starting point for improved service delivery. It is the legal regime, for instance, that defines who should participate in the management and delivery of infrastructure services and under what institutional opportunities and limitations. Equally important, the institutional and legal framework of delivery provides for the administrative and technical procedures that ought to be taken into account by the organisations that provide the service; the level of service to be facilitated; and the system's expectations from the users of the services delivered. The nature of the institutional and legal processes has, therefore, a significant impact on the level, efficiency and developmental impact of ISP.

### **6.1.1 Legislative Framework**

When Zambia became independent on October 24th 1964, the Government inherited a local government system that did not allow full participation of the people in decision-making in local affairs and development activities. Before 1965, only ratepayers were allowed to be involved in the election of their representatives. In order to abolish structures that were perceived to be undemocratic, the government enacted the Local Government Act (CAP 480) in 1965. The Act facilitated the establishment of structures deemed appropriate for decision-making and resource mobilisation at the local level: namely, municipal, township and rural councils. The following features of the Act had important implications for government decision-making:

- the introduction of local government elections, in which all residents above the age of 18 years were entitled to vote;
- the introduction of a unified local government personnel system to overcome the then severe shortage of local human resources in local government service; and
- the abolition of native authorities and replacing them with municipalities and townships. These were re-organised in 1968 into municipal, township and rural councils.

In 1971, the Government made additional attempts to institutionalise structures and provide a link between activities at the community and the central government levels by enacting the 1971 Registration and Development of Villages Act. This Act introduced an institutional framework comprising Village Productivity Committees, District Development Committees and Provincial Development Committees for planning, implementation, monitoring and co-ordination of development at the local level.

The state of affairs described above changed when the one-party system of government was introduced in 1972. Citizens were then restricted to elect presidential and parliamentary members from one party. In 1980, the Local Administration Act No. 15 was enacted, and it brought more changes in the decision-making process at the sub-national level. The Act's primary goal was to secure the supremacy of the sole, ruling

political party, UNIP, at both the national and sub-national levels. The main features of the Act were as follows:

- The elected Mayor was replaced with a presidential appointee, the District Governor, as head of the District Council.
- All civic posts were to be subjected to vetoing by the UNIP Central Committee.
- The chief executive at the council was subordinated to the District Governor.
- The minister of the newly established Ministry of Decentralisation was given powers of veto over most decisions of the district council, including those pertaining to finances.

To qualify as a councillor, one had to be a member of UNIP and had to be subjected to the approval of the ruling party's Central Committee. Despite the fact that the stated goal of the reorganisation was to decentralise power and authority to the lowest organ in the district (the section consisting of 25 households), the supremacy of the ruling party over all decisions compromised this ideal. Consequently, UNIP political priorities reigned supreme over those of the sub-national authorities, a phenomenon that compromised the opportunity to operate councils as professional organs for the delivery of infrastructure services. For example, all decisions affecting sub-national governments were centralised in Lusaka. This centralisation seriously undermined the councils' principal officers who were often appointed on the basis of their political loyalty to the ruling Party and 'its' government. Under such a centralised and partisan set-up, the management and control of infrastructure and services provision became difficult. The inefficiency of the sub-national governments become very evident as, increasingly, they failed to meet the aspirations of the communities that they were mandated to serve.

In 1991, the former government, at the apex of political upheavals that called for transparency and democratic governance, enacted the Local Government Act No. 22. Although already amended by the new government, the Act retains its essential features and provides for a flexible and multifaceted local government system. Elections under this Act were held on November 1992; the MMD won easily, except in the Eastern Province, where the former ruling party, UNIP, retained considerable support. Due to a host of reasons, not least the less-than-enthusiastic government interest to call for these, no local government elections were held in 1995 when they were due. After considerable pressure from civil society and donors, the government facilitated the holding of elections three years later on 30 December 1998. The candidates sponsored by the ruling MMD won most seats, although the opposition made considerable inroads in what were generally described as free and fair local government elections.

With the introduction of the new Local Government Act in 1991, the legal and organisational structure of decision-making at the local level drastically changed, and new structures emerged to replace the largely partisan arrangement presented above. In November 1991, the Ministry of Decentralisation was abolished and substituted by the Ministry of Local Government and Housing (MLGH).

The sub-national governments (councils) are established under the 1991 Local Government Act and are charged under the same Act with infrastructure and services provision (see Chapters Three and Five for details). MLGH is responsible for the facilitation of an enabling environment for the smooth functioning of councils in the country. The Ministry is also responsible for co-ordinating local government development planning. In this connection, and as part of the on going reform of the public sector, the Ministry in April 1994, announced the establishment of the Department of Housing and Infrastructure Services, which is responsible for the formulation of national housing policy and water, sewerage, and feeder roads rehabilitation programmes throughout the country.

The 1991 Local Government Act has been subjected to a number of amendments since it was enacted. The 1992 amendment to the Act empowers sub-national governments to mobilise resources without seeking ministerial approval.<sup>81</sup> Further empowerment of sub-national governments was effected through the Local Government Amendment Act No. 30 of 1995, which empowers local authorities to appoint and discipline personnel without references to the Minister. The 1995 amendments also included the following:

- They abolished the Local Government Service Commission and replaced it with Provincial Local Government Appeals Boards to facilitate decision-making at this level with respect to discipline and appeals cases.
- The Minister is given the power to alter the number of councillors by statutory order.
- The Minister is enabled to make, by statutory instrument, regulations for the control and management of the finance of the councils. In this regard, the Minister is given powers to approve the annual estimates that must be submitted to his office at least 60 days before the beginning of that year. Supplementary estimates must also be approved by the Minister.
- The Minister is given power to appoint a person to inspect council accounts, as well as to give directions to councils to implement recommendations of auditors.
- They prohibit on the sale of any land or building without the consent of the Minister.
- They give the Minister power to control fees and charges in respect of owner rates and personal levy.

The Minister of Local Government and Housing is further empowered by the same Act to intervene in the operations of the councils “whenever, by reason of refusal, failure or inability of a council adequately to discharge all or any of its function....” The Minister in this case may, by statutory order, appoint a public officer to be the Local Government Administrator for that council and effect the following:

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<sup>81</sup> Note that councils are still not permitted to solicit external/donor resources without going through the central government.

- suspend all councillors of the council from performing all of their functions as councillors and empower the local Government Administrator to discharge all the functions of the council; and
- after an inquiry held under section of the same Act, dissolve the council after receiving prior approval of the President, and direct the holding of elections within ninety days, from the date of the dissolution.

It can be concluded from the above that all these amendments have been focused more on the control than empowerment (in terms of sub-national autonomy) of councils.

It is noteworthy that there are several other legislative and regulatory provisions that influence the manner in which councils conduct their business and the degree of their autonomy relative to the central government. Councils also have by-laws that are usually developed within the framework of existing legislation but that are more specific to the respective council's jurisdiction in terms of application and relevance.

It is equally worth observing that the absence of a clear regulatory regime/provisions in the area of ISP has complicated the creation of a supportive environment within which councils have to discharge their functions. Similarly, weak enforcement of legislation and by-laws by the national and sub-national government authorities has also contributed to the often-voiced concerns regarding the poor performance record of councils. Thus, it is important to observe that, in the *Zambian case*, observed weaknesses in the *level* and *quality* of ISP is sometimes more a function of institutional, organisational, and resource capacity limitations than the absence of regulatory and legislative frameworks. Equally observable is the fact that deliberate flouting of laid down procedures and legislation has been evident at both the central and the sub-national government levels. The case of the central government insistence to approve council budgets, even in areas where the existing legislation provides otherwise, is as revealing as reported incidences whereby MLGH effects inter-council transfers of personnel when the existing legislative and regulatory provisions do not allow for this.

#### 6.1.2 Regulatory Framework

The regulatory framework within which councils operate must be seen in terms of the existing government policy *vis-à-vis* local government. Chapter Three highlighted this. Suffice to state here that the overall government policy is to decentralise the functions of government to lower-level operators and sub-national authorities. What is largely missing is a clear decentralisation policy that specifically defines, *in operational terms*, the extent and limits of actions by councils. The Draft Decentralisation Policy Document has been under development for the past two years but has, up to now (March 1999), not been adopted by Cabinet. Consequently, decentralisation and modes of implementation seem to mean different things to different government ministries and among different other providers of infrastructure services.

Closely related to the above is the need for clarification in the regulatory framework. Areas that are currently unclear and affect the urban poor include regulations regarding water quality - in particular, problems related to effluent and discharge from latrines - and extraction regulations. Confusion over the lines of responsibility between the two main line ministries (MLGH and Ministry of Energy and Water Development) is one important factor contributing to the current lack of clarity in the sector's regulatory framework.

The lack of a regulatory framework is closely linked to problems of departmental and ministerial co-ordination in ISP, as demonstrated in Chapter Five. Various recommendations to unite water supply and sanitation within one ministry or agency, for example, have not yet been implemented. Many studies have argued that planned decentralisation of water services requires that the regulatory function remain within a central unit and the executive function be delegated to local government. Presently, while the water supply sector is the primary responsibility of the Department of Water affairs (DWA) at the policy co-ordination level, actual water services delivery at the sub-national level is placed under councils (that fall under MLGH), as well as under DWA itself in some of the more rural districts.

At the more general level and in recognition of the critical need of a supportive policy and regulatory environment, the government formulated the Public Service Reform Programme (PSRP) to reform its civil service to better serve state policy of socio-economic and political liberalisation and development of democratic governance.<sup>82</sup> The programme also includes a component on decentralisation and the strengthening of local government. It has been under implementation since 1993, although, so far, very little progress has been registered. What is noteworthy, though, is that within the PSRP framework, the responsibility for health and educational services delivery was transferred to local boards that have been established. Moreover, Development Co-ordination Committees have been formed at the provincial and district levels, and planning and management machinery in most of the 72 district councils has been established. However, these efforts are principally deconcentration of central government functions, rather than devolution of its functions and authority to the local levels. There is also another serious problem: the absence of a comprehensive PSRP implementation plan. Such a plan is essential because it would show the approach to implementation; the scope of the exercise; the phases in implementation, including geographical coverage; whether or not there would be pilot phases; etc. Development and adoption of a decentralisation policy is an important step; but, so far, there is yet to be developed legislation to bring into effect the policy; the procedures to guide the new relationships; and the introduction of new planning and financial management systems and guidance on how these are to be handled between the centre and the sub-national authorities.

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<sup>82</sup> UNDP has been supporting GRZ to develop the capacity for implementing the programme since its inception in 1993. Other donors and development agencies have also been supporting various elements of PSRP implementation. The World Bank is assisting the process of developing a pay policy and package. The Canadian International Development Agency (CIDA) is supporting capacity building activities under the Public Service Training Systems Project (PSTSP). UK Government through ODA assisted planning and management capacities of the local government system at the district level for three years (1994-97).

With respect to actual service delivery, problems remain. In the water sector, water supply has been deregulated, and efforts are underway to establish more water utility companies apart from the two that already exist in Lusaka and Chipata (see Chapter Five for details on progress along this line in some of the six sample councils).

At the level of roads maintenance, urban local authorities are responsible for the maintenance of all roads within their boundaries, including trunk roads, as provided for in the 1991 Local Government Act. These roads have deteriorated due to the lack of funding, and sub-national authorities - including the six sample councils examined - face major problems in bringing them up to an acceptable standard. The responsibility of district councils, on the other hand, is limited to maintaining ungazetted roads in the rural areas and townships. This secondary road network - of mainly rural 'feeder roads' - forms an important component of the national road system, representing around 16,000 kilometres (or 44 per cent) of a total of 36,000 kilometres of roads within the country.

The standard of maintenance of the feeder road network is, however, certainly not adequate. As the system has deteriorated, there has been a consequent loss of public confidence in the councils; some pressure has been exerted on the Roads Department to take over its road maintenance functions. However, the existing legislation does not facilitate this. In any case, the Roads Department is resistant to this idea and wants the capacity of the district councils to be strengthened, on the ground that maintaining feeder roads is properly a local authority function.

Education is a field in which local authorities have wide permissive powers under the 1991 Act, but in which the central government's responsibilities (and particularly those of the Ministry of Education) continue to be predominant. Under the 1975 reform measures, responsibility for primary education was actually transferred to local authorities, but it did not prove feasible for this initiative to be followed up. Local authority involvement, at present, is confined to the provision (in competition with the private sector) of pre-school nursery centres.

Community development, on the other hand, is a sphere where both urban and rural sub-national governments are already undertaking a considerable range of programmes, though the impact of these programmes is restricted by inadequate funding. Many community development projects - particularly literacy and farm extension programmes - would benefit from the rehabilitation and extension of the library system that councils have been mandated, by legislation, to provide. Probably the most important, in development terms, of the various public amenity services local authorities are empowered to provide, the library service, has suffered over the years from inadequate investment.

In terms of standards, most of the councils have by-laws that categorically specify their expected quality of service in ISP. However, due to a host of reasons, least of which being legislation, the quality of service has remained poor and, in many cases, worsened against the backdrop of dwindling financial and human resources at the disposal of the councils (see Chapters Four and Five for details).

### 6.1.3 Experiences of the Sample Councils

All the six sample councils (Lusaka, Ndola, Kalulushi, Livingstone, Chibombo and Petauke) generally believe that the main problem presently is less the absence of legislation and regulatory mechanism that are supportive of effective ISP. They believe that the Local Government Act and its subsequent amendments have extended sufficient autonomy to them to perform their functions with minimum political interference. The far-reaching central control by government of their local tariffs, through the requirement for ministerial approval, is seen as being retrogressive and counter to the principles of liberalisation and decentralisation. Livingstone and Kalulushi both reported having experienced protracted delays in the past regarding ministerial approval of the recommended tariff increases. Political considerations, that include that from internal actors - the councillors are believed to have unduly influenced tariff levels. This phenomenon is seen to have worsened their financial bases, particularly in the light of the poor record of central government transfers to sub-national governments.

Nationally prescribed planning and building guidelines have not been cited as a constraining factor in any of the sample councils examined *vis-à-vis* their degree of self-governance. All the sample councils identified the weak human resource and financial capacity to facilitate the surveying and development of land as the main hurdle to the smooth development of land and residential housing. Kalulushi, Livingstone, Chibombo and Petauke all reported that they have not invested in land development in the past five years due to insufficient money collected from the people allocated the land, itself a function of the councillors' unwillingness to approve the proper rates. It is believed, therefore, that if these constraints were eliminated, the existing, largely liberalised regulatory regime would allow for improved land and property development. This is further strengthened by the liberalised macroeconomic environment that Zambia has embarked upon since 1991.

Notwithstanding the environment described above, which is generally conducive, the most important challenge in the area of local self-government enhancement regards the need for the government to approve the Decentralisation Policy Document; it is this very document that would facilitate a clearer picture on how best to operationalise a policy devolving power and authority to sub-national governments.

## 6.2 Legislative Requirements of Councils

### 6.2.1 Responsibilities

By the provision of section 61 of the Local Government Act, a council may discharge all or any of the functions set out in the Act. A council may also enter into contracts necessary for the discharge of any of its functions. As has been revealed in Chapter Three, the main services provided by local authorities in Zambia are as given in Figure 6.1 below. An indication is made regarding the ones the respective sample councils are actually providing.

**Figure 6.1: Main Services Provided by the Sample Councils**

RESPONSIBILITY <sup>83</sup>	LUSAK	NDOLA	KALUL	L'STN	CHIBOM	PETAUK
Refuse collection and disposal						
Water supply, treatment and reticulation						
Street lighting in urban areas						
Sewage disposal						
Care and maintenance of parks, gardens, cemeteries						
Street cleaning						
Inspection of hotels, bars restaurants and abattoirs						
Pre-school education						
Basic Education						
Secondary education						
Provision of public conveniences and ablution facilities						
Health education						
Prevention and abatement of public nuisances						
Spraying for pests						
Feeder road construction and maintenance						
Construction and management of housing						
Construction and management of markets						
Physical (town/city) planning						
Traffic control, car parking and road safety						
Motor vehicle licensing						
Public transport						
Recreational facilities maintenance						
Community development projects						
Vocational training						
Management of resettlement schemes						
Organisation of drought/flood (food) relief						
Issuing of trade licenses;						
Commercial undertakings (e.g. shops, Taverns, rest-houses)						

## 6.2.2 Current Trends

The position of the local authorities is so weak that they have generally proved to be ill equipped to undertake the above responsibilities. Apart from the unclear policy environment in which they have to operate, sub-national authorities in Zambia face many problems that prevent them from effectively carrying their functions. The impact of years of political direction from the centre during the one party era and the neglect of the institutional and human resource development needs over the years has left a legacy of institutional decay. As demonstrated in Chapter Four, there are hardly any funds coming from central government, just as there are no credible sources of revenue left for the local authorities to tap on, even if they had the capacity to do so.

Although the figure above does show that the majority of councils in the sample are involved in actual delivery of the specified and legislated mandates, a closer look at the six councils tells a rather different story at the level of quality of provision. Owing to inadequate financial resources, the Petauke District Council's activities, for example, have been restricted to the running of markets, motel and taverns; provision of facilities for the burial of the dead; cleaning of the township; and administrative services. The success of the Council's markets, motel, taverns and retail shop has been negligible. The provision of burial facilities and the allocation of plots are the responsibility of the Public Works Department, but these tasks are poorly delivered.

<sup>83</sup> The actual specifications of the standard and quality of ISP are specified in the councils' respective by-laws. Further, note that the actual quality of service by a given council is estimated in Chapter Five under sub-section 5.3.

One noteworthy aspect of ISP by sub-national governments involves the degree to which the private sector has taken up the challenge following the government's policy of liberalisation, especially since 1991, in the regulatory environment. In the urban areas, particularly in Lusaka, a number of private operators have entered into partnership with councils in the provision of those infrastructure services that were traditionally the preserve of the sub-national authorities. Sewerage disposal is one such area where the private sector has taken advantage of the liberalisation in services provision. A number of companies in Lusaka and Ndola now construct septic tanks and soak-away facilities, as well as emptying and treating existing ones. The Lusaka and Ndola City Councils are, thus, no longer the monopoly providers of this service. In the water sector and for all the sample councils, private operators continue to provide boreholes and water reticulation equipment to individuals and companies that are able to pay for the services. The same story is true for the roads sector, and, more interestingly, the liberalisation programme is slowly penetrating the rural districts. For example, the private sector is involved in the roads-related activities performed by Petauke District Council, motivated mainly by the fact that it is one of the main users of the road system in the area. Since 1995, Sable Transport Limited, a private company, has maintained certain roads at its own expense. In 1996, 1997 and 1998, the company maintained T4/Sinda to Nyanje Headquarters Road, a distance of about 22 kilometres. In 1998, the company, in addition to Nyanje Road, has maintained Petauke/Nyakolwe Road (56 kilometres) and Mumbi/Mwanjawanthu Road (18 kilometres). The Lutheran World Federation (LWF), a non-governmental organisation, maintained the Petauke/Ukwimi Road (60 kilometres) in 1997.<sup>84</sup>

Several other providers of infrastructure services have entered the market in the rural areas (see Chapter Five for details). Since 1996, the United Nations Children Education Fund (UNICEF), through the Petauke District Water Sanitation Health and Education (D-WASHE), has been involved in the provision of water and sanitation in the District. In the provision of water and sanitation services by agencies that are external to the district, the Petauke Council is signatory to the contracts, while the D-WASHE is the executing organ. The actual drilling of boreholes and sinking of wells is done by a private contractor, perhaps a good example of multi-sectoral alliances in service provision. The Economic Expansion in Outlying Areas (EEOA), another NGO, has been involved in small-scale business training and construction of infrastructure facilities, such as bridges to promote economic activity in agriculture. The Micro-Projects Unit (MPU) has provided capital investment in the education and health sectors for rehabilitation of primary schools and rural health centres for many years now, and Petauke district has considerably benefited from these initiatives, as demonstrated in Chapter Five.

The Petauke Council is also a good illustration of community participation in ISP. In the provision of water and sanitation, local communities' involvement is in the management and maintenance of the boreholes and wells. In MPU projects,

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<sup>84</sup> The value of these road maintenance works is not readily available.

beneficiaries contribute 25 percent of the total cost of the project, mainly through their labour.<sup>85</sup>

In the sphere of public health, the regulatory environment has facilitated the direct involvement of sub-national governments. Lusaka, Ndola, and Kalulushi have been particularly active in the area of preventive medicine, operating a range of clinics to provide, for example, antenatal and under-five services and to assist in immunisation campaigns. Presently (February, 1999), the Cities of Lusaka and Ndola are facing a major cholera threat that has resulted in the loss of dozens of human lives. Both City Councils, mainly through the clinics that they are managing, are presently active in taking community-based preventive measures to stop the problem from escalating into an epidemic. As noted earlier, the Ministry of Health has embarked on an ambitious devolution programme, centred on district health boards, and councils are represented in these activities.

Education is a field in which local authorities have wide permissive powers under the 1991 Act, but in which the central government's responsibilities (and particularly those of the Ministry of Education) continue to be predominant. Under the 1975 reform measures, responsibility for primary education was actually transferred to local authorities, but it did not prove feasible for this initiative to be followed up, and local authority involvement is at present confined to the provision (in competition with the private sector) of pre-school nursery centres. Lusaka, Ndola, Kalulushi and Livingstone councils all reported their involvement in pre-school services provision. Community development, on the other hand, is a sphere where both urban and rural local authorities are already undertaking a considerable range of programmes, though the impact of these programmes is restricted by inadequate funding. Many community development projects - particularly literacy and farm extension programmes - would benefit from the rehabilitation and extension of the library system that presently falls under the jurisdiction of councils. Probably the most important, in development terms, of the various public amenity services local authorities are empowered to provide, the library services, particularly at the district level, have suffered over the years from inadequate investment.

### ***6.3 Issues of Decision-Making Relevant for ISP***

The relationship between local and central government has changed under the new regulatory and legislative regime described in 6.1 above. Central government, to some extent, no longer exerts overt control over council decisions and decisional processes as it did during the 'Second Republic'. Councils are supposed to have more decision-making autonomy to control their affairs. However, the government retains the power to control the activities of local councils in several important respects, and this practice has been confirmed by the six sample councils in this Study. All the six councils reported that they required ministerial approval for all major financial decisions taken by councils: for example, the setting of budgets; appointment of auditors; and foreign

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<sup>85</sup> This community contribution can also be in the form of local communities moulding and curing bricks, collection of river and dambo sand and putting in place measures to ensure maintenance of the project after completion.

aid applications. Principally, councils lack independent decision-making powers in the fiscal sphere. All capital/development expenditure decisions in the councils are controlled by the central government, which maintains separate capital budgets for their respective sectoral functions. The bulk of capital fund transfers from central government to the local level goes to these departments and is, therefore, beyond the councils' control. What is particularly worth observing is that almost all the capital projects that are undertaken in the sample council areas (see Chapter Five, section 5.5 that lists these for the six examined councils), to the extent that they are externally-financed and managed, have generally been outside the regulation and control of the sub-national governments. As one senior council official at Petauke District Council complained, central government department personnel who are in charge of the bulk of development projects in the district are not answerable to the Council. They report directly to either their provincial or ministerial headquarters in Chipata or Lusaka.

The Minister also has to approve significant administrative changes such as amendments to the by-laws or standing orders of the Council. Despite the introduction of the new Local Government Act in 1991, bureaucratic channels of decision-making between central and local government have not changed much. A number of problems, thus, have been reported by the six sample councils.

Firstly, the relationship between central and local government is problematic and affects the performance of local councils. Successive national development plans have placed emphasis on the need for local councils to expand services, particularly in the development of infrastructure for disadvantaged groups.

Secondly, a related problem is the degree to which political interference from central government still affects the decision-making processes of local councils, despite the ostensible removal of such controls under the 1991 Local Government Act. For example, ministers continue to override decisions taken by a council if the latter goes against government thinking. Similarly, the hiring and firing of chief officers can still be dictated by the political objectives of government ministers, although, in theory, this should no longer be the case. For example, during the course of this Study, the Minister of Local Government and Housing suspended chief officers in a number of councils. This demonstrated the overriding power and authority of the central government over local authorities, particularly over the democratically-appointed municipal Councillors. These ministerial powers are retained in the 1991 Local Government Act and subsequent amendments of the Act. Overall, political control by the central government has resulted in delays in responding to urgent needs by sub-national governments. All the six councils studied reported that in issues requiring ministerial approval, delays of several months sometimes occur before corrective action is possible.

Thirdly, the local government system has continued operating in a policy vacuum. The Ministry of Local Government and Housing is responsible for the creation and dissemination of policy, in relation to local government functions, through which the actions of councils should be guided. At present, there are no coherent policies in place in relation to most local authority activities. At the macro level, the Decentralisation Policy Document has not yet received Cabinet approval. At the

sectoral level, for example, there is no national housing policy and no consistent policy regarding community participation. This makes it difficult for integrated planned development to take place.

#### **6.4 Management of Budgets by Councils vis-à-vis Operational Autonomy**

##### **6.4.1 Overview of Budgeting, Accounting and Auditing Processes**

The Ministry of Local Government and Housing (MLGH), since independence, has played a dual role as a sector ministry and as a ministry responsible for local government. Its functions, with respect to the mobilisation of financial resources, have included budgeting and securing funding for its own operations, as well as sourcing capital and recurrent grants from the central government and donors for the operations of sub-national governments. The Ministry also provides external auditing to local councils and issues financial and service regulations to guide local authorities in the management of their financial affairs.

Until the early 1980s, there was an elaborate grant payment system, whereby sector ministries provided specified grants to support local councils to undertake the devolved/deconcentrated functions on the councils' behalf. During this period, 70 percent of local councils' income originated from the central government through MLGH as grants, while the remainder was met by revenue raised from local levies, fees and charges, as well as specified funds from other sector ministries whose functions they performed.

Normal uncertainty in budget-making is greatly compounded in Zambia's case by the poor economic climate, high level of inflation and unpredictability of central government decisions on matters such as global pay increases and payment of grants. It is also worth observing that sub-national governments do not draw up indicative medium-term financial plans, for either capital or recurrent expenditure, as a way of forcing proper evaluation of the longer term financial implications of current decisions, including identification of potential shortfalls in revenues and options for correcting them.

Before one looks at the issue of sub-national autonomy with respect to the budgeting process, there is need to appreciate the elements of the process itself. There are presently so many serious defects in the sub-national authorities' annual budgeting process as to render the exercise almost meaningless. For all the sample councils that are covered in this Study, it seems that the budgeting process is almost wholly in the hands of their respective finance departments. Service departments are requested to submit proposals (usually in September/October), but there is no prior strategic review of likely available resources and spending priorities, and the received submissions are often ignored as being wholly unfinanceable. Preparation of the budget document is usually a lengthy process and is rarely finalised before the end of the financial year. The drafts are submitted direct to the Finance and General Purposes Committee (FGPC), with little prior consultation with their chairmen, or even with mayors. Services committees are rarely consulted at all.

Budget formats in all municipalities visited are very similar, conforming with central guidance issued many years ago. They consist of a number of summaries, followed by many pages of detail, in technical accounts format. Not even the summaries are of any real use for informed debate on resources allocation, and nobody other than an experienced local government accountant could be expected to be able to interpret the detailed tables. There is no supplementary data explaining service levels, etc. that might throw light on the implication of the proposals. Further confusion is caused by liberal use of inter-vote recharges, many of which are not identified in the expenditure analyses, and which lead to summaries including fictitious amounts of revenue and offsetting multiple counting of expenditure. Presentation of the documents in computer printout format adds to the comprehension difficulties, particularly for councillors whose educational levels are modest.

Notwithstanding the dominance of the finance departments in budget preparation, the responsible officials mostly show little awareness of the expenditure needs of the services for which they are budgeting, being unable to quote basic operational statistics such as staff numbers, unit costs, and client populations served. It was generally difficult during the course of this Study to get access to this basic data. In Livingstone, even the Director of Personnel was not in a position to provide, off-hand, the actual figure of the City Council's employees.

The draft budgets presented to the Finance and General Purposes Committees generally show current accounts deficits. The accompanying brief reports confine themselves to stating the proposed rate poundage and increases in fees and charges estimated to be required to cover the deficit. Once agreed, the summary tables are amended in accordance with the FGPC decision, formally approved by full council and, as a mandatory procedural requirement, submitted to the Minister of Local Government and Housing for approval. The Ministry's approval is rarely received on time.

The amendments to the draft budget summary made following FGPC decision are not carried into the detail-supporting tables that allocate provisions over services. The latter, therefore, cannot function for either of the two principal purposes of an annual budget: (a) as the financial plan allocating resources for the year and (b) as the basis for control of programme implementation. Revised budget estimates are only produced concurrently with the preparation of the budgets for the succeeding year. In view of the timing, their approval amounts merely to a retrospective endorsement of changes that have already taken place - often, on the expenditure side, mainly reflecting the actions of officials. Yet, the variations from the original budgets are frequently very substantial. One is led to the conclusion that, for practical purposes, there is really no effective financial plan governing municipality operations.

In accordance with the financial regulations governing the functions of sub-national governments, directors of finance are expected to report monthly to FGPC on receipts and payments made. These reports are frequently submitted late, often by several months, owing to delays in computer processing of the accounting records. They are compiled manually from computer printouts or alternative sources. The expenditure

report formats are of little use for the purposes of meaningful financial control: expenditure is not cumulative for the year; no comparison is given with budget provisions; and no analysis is given according to service or spending department. The income report formats are better, giving both cumulative figures and comparisons with budgetary estimates for principal sources. However, they give insufficient detail, do not follow the same format as that of the budget and sometimes mix accounting transactions with true receipts figures. No regular statements of the municipalities' cash position in total or by fund account are provided.

In the councils examined, internal audit sections are currently located in the finance department of each municipality. The divisions seemed often to be understaffed, and the impression gained was that they spent much of their time on the routine checking of transactions within the finance department. Internal audit should be a service to the whole municipality, charged with the seeking out, not only of malpractice, but also of waste and inefficiency. The placing of the local government internal audit service within the finance department deserves to be reviewed. In some other countries, the independent status and high ranking of this service is emphasised by making it responsible to the town clerk or equivalent top official, or even directly to the elected council.

FGPC acts as watchdog in the utilisation of resources by local authorities. In addition, since 1984 there have been committees on local government administration and public accounts (Parliamentary Select Committees) at the central government level. Their primary role is to ensure that public funds are spent properly and in the interest of the general public. To further entrench the principle of good financial accountability in local authorities, there are Ministry of Local Government and Housing external auditors within the Provincial Local Government Office to examine books of account maintained by local councils. The Lusaka-based Ministry of Local Government and Housing auditors supplement the Provincial Local Government auditors in the audit of councils' books of accounts. Several large municipal and city councils have appointed, with the permission of the Minister of Local Government and Housing, professional audit firms from the private sector to undertake the audit of their accounts. In addition, the ODA-supported Local Government Support Project (LOGOSP) is providing training in the maintenance of financial records, the production of financial statements and the appropriate reporting to enable councils to make independent, and yet effective, decisions and ensure proper accountability in the use of public funds.

Secondly, there seems to be no provision in the current thinking of the central government for the costs of administering or managing an activity on behalf of the government by an agency or local authority. For example, sub-national governments lack legal powers to control and manage the Constituency Development Fund (CDF) that has been created by central government to support the development activities in their respective local areas. Furthermore, currently, there is no provision for the CDF to provide finance for administrative activities. This means that separate resources must be found from the councils' scarce budgetary resources to manage CDF. Indeed, when functions were transferred or created at the local level, administrative and financial management costs have generally been ignored; thereby putting further pressure on sub-national authorities to bear additional costs at the expense of their

mandated functions. The cost of managing additional activities without corresponding funding to cater for administrative costs has adversely affected the local councils' ability to finance other functions.

Thirdly, there has not been an effective system or mechanism for co-ordinating resource mobilisation and utilisation at the local level. This has remained highly centralised. There have been no consistent attempts by the government over time to recognise the available resource potential in utilising the private sector and local communities, let alone efforts to provide for the co-ordination of resources for local development.

#### 6.4.2 Indicators of Actual Operative Autonomy

This section looks at the degree to which sub-national governments are outside the control of central government with respect to local budgetary discretion (i.e. control of spending), the predictability/transparency of central government transfers to local authorities and the internal capacity of the councils themselves to operate independently of central authorities. Autonomy in this context, therefore, implies that the sub-national governments should be able to make legally binding decisions on their own within a specified regulatory and legislative framework. Below is an examination of the aspects that may serve as indicators of the degree to which sub-national governments possess autonomy over finances.

##### *6.4.2.1 Autonomy in Relation to Tax Revenue*

A council is empowered by the 1991 Act to charge fees and levies for its services on all leviable persons and entities. This includes persons or corporate bodies:

- owning or occupying property or premises situated within the area of the council;
- carrying on business, trade or occupation within the area of the council;
- purchasing or selling commodities within the area of the council;
- in respect of any licence or permit issued under bye-law or regulation made under the 1991 Act; and
- in respect of any service or facility provided or goods or documents supplied by the council in pursuance or connection with the discharge of any of its functions.

Sub-national governments have had some autonomy under various provisions of the 1991 Local Government Act to raise revenue from their own local sources and to utilise it in the best way possible. The 1991 Act and subsequent amendments have given local councils wide-ranging powers to raise revenue and utilise it in any best way possible while, at the same time, attempting to compel the central government to honour its financial obligations to councils.

Notwithstanding the fact that there are clear legal provisions under the Local Government Act that empower local councils to fix levies, fees and charges without recourse to the responsible minister (and which also empowers them to spend money raised on programmes and projects in the way deemed fit), arbitrarily political interference has continued unchecked. In some instances, councillors themselves

oppose charging economic rents on the ground that the people cannot afford them or they can make them unpopular, particularly during the pre-election periods. This has rendered most local councils incapable of mobilising sufficient resources for their own operations and for providing quality services. All the six councils in the sample for this Study reported that there has been excessive political influence in their budgeting and accounting systems.

*Fixing of maximum Personal Levy amount:* Personal levy as amended by the Personal Levy (Amendment) Act, 1994 fixed the minimum leviable amount at K300,000 per annum and the maximum levy payable at K15,000.00 per annum. This fixed threshold denies councils the flexibility/autonomy in determining the payable levy. The existence of the maximum threshold has removed the elasticity in the personal levy income for sub-national governments.

*Minerals and Timber Levy:* The 1997 government budget gave powers to the Ministry of Finance and Economic Development to collect mineral and timber levy which ordinarily should be revenue sources to benefit the local sub-national authorities in which these mines and timber plantations are found.

*Government Decision to sell Council Houses:* The government decided in 1996 to sell council houses to sitting tenants. This decision is regulated by Government Circular No. 2 of May, 1996. The immediate impact of this decision is that councils have lost one of their major sources of income. On average, housing income accounted for 30 percent of total revenue of urban councils. Consequently, the councils' financial position has been undermined, especially since all their housing stock has been sold, by presidential decree, at below market prices. In many cases, the President visited the residences and, particularly during the election year (1996), arbitrarily fixed sub-market prices and directed the council to give it away at that rate, with no consideration of the market price.

*Value of Land:* The 1975 'watershed speech' by the President declared that, with effect from 1st July 1975, land would have no value and, therefore, would not be rateable. Consequently, income accrued to councils from the land element was lost. Moreover, the impetus to develop land was lost, as the punitive measure of levying rates on land was no longer in place. This retarded development and growth of the rateable value on which councils could tap the rate income. Although the post-1991 period declared land as having value, the 1997 Rating Act seriously minimised the councils' ability to tax agriculture property (see Box 3.1 in Chapter Three).

*Transfer of Electricity Supply Business to ZESCO:* During the 1960 to 1972 period, electricity was controlled by local authorities. The high income earned from power supply by councils contributed significantly to their revenue base. The electricity undertaking, which was a major revenue source for some of the councils, was withdrawn in 1972 by the central government (without consulting sub-national authorities) and handed over to the Zambia Electricity Supply Corporation (ZESCO), a parastatal. Although liabilities and assets were transferred, no corresponding revenue was assigned to the councils that were affected. For Ndola City Council, electricity

alone at the time came second only to liquor in terms of contributing to the Council's income.

*Non-payment of Rates by Government:* Councils also seem not to have any control over what - and when - the government can pay in lieu of tariffs. All councils expect to receive a grant in lieu of rates on properties of the central government that lie in their areas. However, not only is the central government unwilling to pay according to the full value of its properties, but the amount paid is geared to the last (five yearly) valuation, and this is not automatically updated. In these circumstances, the councils have suffered severely.

*Decline in Government Transfers:* Presently, the central government transfers to councils consist of mainly grants targeting recurrent expenditures and, to a lesser extent, capital development requirements. Loans are rarely extended to councils by the central government. Additionally, councils are entitled to a share of the national sales tax that is to be distributed annually through MLGH. Most of the flows from the Ministry to the councils have been effected on a case-by-case *ad hoc* basis and in response to cash crises as they emerge.<sup>86</sup> The criterion for giving grants to councils is not transparent at present, and there are indications that some councils are more favoured than others. In December 1998, during the campaign for the overdue local government elections, the Vice President was quoted as having said that councils that shall vote for councillors that do not belong to his ruling party (the MMD) shall not receive grants from the government. This attracted strong reactions from members of the opposition.

Generally, the levels of the average Zambian municipality expenditure on basic infrastructure have been checked by the low levels of central government transfers to these councils. During the first few years of independence, Local government received many grants such as community development grants, housing unit grants, fire services grants, police grants and health grants. The rate of grants was based on a pre-determined formula, such as a percentage of the allowable expenditure. A block grant equalised for the needy councils, which had low-income bases. Many of the above grants have ceased, and major declines in central government transfers began in 1973.

Apart from the Ministry of Local Government and Housing, a few other ministries make direct payments to the municipalities for service-specific current expenditure grants. With respect to capital grants to councils, these are usually from donors routed through the Ministry of Local Government and Housing since, by legislation, sub-national governments are not permitted to negotiate directly with external agencies for grants or loans.

As earlier stated, the intentions of the grant systems are unknown, as are the bases for their calculation and distribution. The means to channel discretionary capital finance for the district level to support the decentralised development planning system have

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<sup>86</sup> This is sometimes done in an effort to appease the local authorities following the central government's approval of civil servants salary increases. Such increases are usually extended to council employees with no serious consideration given for the latter's inability to meet the increased wage bills.

also not been clearly identified. The amount actually transferred to councils is almost always only a small fraction of the amount that they should have received on the basis of an up-to-date valuation, thus, underlining the inability of councils to be financially self-sufficient and, thus, autonomous. The small size of the funds made available and delays in releasing them have always led to intense frustration within the local government system in Zambia. The frustration is compounded by lack of information made available to councils about funding policy; the amount available for distribution from various sources; the criteria adopted in disbursing grants; the reasons for the delay in releasing funds; and an indication of when funds expected to become available would arrive. The decentralisation initiatives that have taken shape since 1964 have failed because the necessary resources have not been transferred from the centre at the same time that power, functions, authority and responsibilities have been devolved and/or deconcentrated.

The central government grants' unpredictability, in both the timing of disbursement and the actual amounts, has rendered their proper planning and utilisation by the recipients very difficult. Thus, in respect of all the important sources of revenue - local sales tax, the beer surtax grant, the grant in lieu of rates and specific grants - councils have not been informed in advance of the amounts that they could expect to receive. Councils' budget formulation and forecasting, and the drawing up of development projects, therefore, are made both extremely difficult and unrealistic. Strictly, in legal terms, councils only have powers to approve or disapprove projects which they fund themselves considering the unpredictability nature of government grants, an aspect that exemplifies the limits of their autonomy in fiscal management.

#### *6.4.2.2 Autonomy in Relation to Tariffs*

Despite the policy of liberalisation and the provisions of the 1991 Local Government Act, the central government still exercises control on the level of fees and charges that councils may levy. In 1993, for example, the government reduced the rates proposed by the Lusaka City Council after the council had already issued rate demands. The effect of this 'interference' on the council's budget was adverse. Meanwhile, the government position is that councils must be self-reliant, and yet they are not facilitated to charge economic rates. Similarly, the recommendations of councils' chief officers to adjust rates upwards in line with the inflation trends are usually turned down by the councils' decision makers (the councillors), principally out of political considerations.

It is equally worth noting that the financial autonomy regarding the councils' capacity to determine realistic rates has been eroded by the fact that the grant in lieu of rates given to councils by central government has little relation to the value of state-owned property within a given council area.

#### *6.4.2.3 Autonomy in Relation to Recurrent Expenditure Decision-Making*

Generally, councils have considerable latitude in utilising the resources that they generate. Moreover, once the MLGH Minister approves their annual budgets, councils have a free hand in utilising what is available.

Notwithstanding the above, councils often have to bear the brunt of certain central government decisions which were taken unilaterally, thus, revealing the councils' lack of influence over the levels of wage increments. For example, councils were subject to the 1992 national agreement, reached by the central government, which entailed a substantial increase in wages and salaries, while the subsistence, sitting and transport allowances to be paid to councillors were fixed by the centre at a level beyond the capacity of many council to pay. Similarly, the central government's decision in 1992 to retire compulsorily local government employees who had completed twenty-two years' service placed councils in an embarrassing financial position and impeded the discharge of their functions. Moreover, the government was slow to work out retirement packages with the labour unions, thus, exposing the councils to intense pressure from retrenched workers, including incidences of litigation.

#### *6.4.2.4 Autonomy in Relation to Capital Expenditure Decision-Making*

As demonstrated in Chapter Four, hardly any capital expenditure projects/programmes are initiated and administered by the six councils in this Study's sample. Indeed, most of the sub-national governments in Zambia have been unable to invest in capital projects for the past several years. This is explained principally by the poor financial state that this Report has earlier demonstrated. Much of the investments that are taking place in the councils' jurisdiction have been principally derived from central government funding, either directly from its own budgetary provisions or, and increasingly so, from donors. In both categories of funding, councils are rarely involved in the identification, implementation and evaluation of the performance of the projects. The parallel system of decentralisation<sup>87</sup> has generally tended to marginalize the involvement of councils in capital expenditure management. In the absence of capital projects under the control of the councils, it is difficult to state with certainty the degree to which central government is ready and willing to allow them autonomously to make decisions over capital expenditure management. Statutorily, councils are expected to have autonomy with relation to capital expenditure decision-making.

#### *6.4.2.5 Autonomy in Relation to External Finance Decision-Making*

Councils in Zambia are corporate bodies set up under the 1991 Local Government Act. The Act gives powers to councils to carry out and fund various activities. As such, the law specifically gives authority to sub-national governments to borrow money from any of the following sources in order to discharge their functions:

- loans or grants from the central government or another local government;
- financial market by issuing stocks or bonds;
- mortgages; or
- loans or overdrafts from banks or other sources.

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<sup>87</sup> As demonstrated in Chapter Three, apart from the local government administration at the lower level, there is provincial or district administration consisting of lower organs of central government. These have generally been preferred to councils in the planning and management of capital projects at the lower levels.

Notwithstanding the above, Section 48 of the 1991 Act prohibits councils in Zambia from borrowing from foreign governments or foreign organisations. They are also not permitted to directly negotiate a grant with a foreign donor.

## **6.5 Private Sector Involvement in ISP**

### **6.5.1 Private Sector Involvement: Rationale and Principles**

To allow for the smooth entry of the private sector in ISP and to facilitate enhanced performance of infrastructure services, the following three elements are essential: (a) the adoption of commercial principles in ISP; (b) the introduction of competition; and (c) more participation of beneficiaries in service provision, especially when the adoption of commercial principles and competition is not easily forthcoming.<sup>88</sup>

Competition under a liberalised regime holds much promise in the area of infrastructure and services provision. Liberalisation here entails that direct government involvement in, and control of, the infrastructure sector has to be reduced significantly, something that the Zambian government has accepted in principle. Competition allows consumers to have choices over who could better meet their demands among alternatives. Competition also has the capacity to exert pressure on service agencies to become efficient, responsive and accountable to users. A competitive environment in services provision can be promoted directly through the removal of legal restrictions to enter into, say, water supply or indirectly by way of competitive private sector bidding for contracts. Regulatory innovations in a number of countries have facilitated the ‘*unbundling*’ of service whereby various activities that previously operated under a sheltered and unified state-dominated structure are detached from each other and opened up to competition (the principle of ‘*divided they stand*’).

Given the above state of affairs, it is increasingly being recognised that monopolistic public providers of infrastructure, social services and other goods and services (be it by central or sub-national government) are unlikely to succeed in their responsibilities. This means that a carefully designed strategy of private sector entry holds promise, as it enhances the growth of markets. Closely associated with this realisation is the recognition that policy-making and implementation in the area of infrastructure and services provision should be embedded in processes that are inclusive and consultative in nature. This approach leads to smoother implementation, improved programme/project sustainability and greater opportunities for feedback to policy-making agencies. The importance of community participation in service provision, thus, finds expression in ISP.

In the light of the above, four options for ISP are conceivable in the area of ownership and provision.<sup>89</sup> These are presented below.

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<sup>88</sup> It is noteworthy that these principles are universally applicable irrespective of who provides or owns the infrastructure services: public sector, private sector or a combination of the two.

<sup>89</sup> These options only provide, on a much wider continuum, what are non-exhaustive representative points. As such, a number of combinations and mixes can easily be opted for by a country depending on what it needs and what is possible given its special institutional limitations and resource endowments.

*Public Ownership and Public Operation:* This option is presently still the most common option in Zambia. For the service provider to be efficient under this option, the operational environment must facilitate for commercial management that includes some of the aspects already discussed in this Chapter. These include financial autonomy and accountable managers; exposure to competition; cost recovery tariffs and rates; properly-targeted, transparent and predictable central government transfers to sub-national authorities; personnel recruited on merit and compensated adequately; stakeholder/user involvement; and the existence of a supportive regulatory and legislative framework.

*Public Ownership while Operations are Contracted out to Private Providers:* Under this option, the private sector is sub-contracted, through leases or concessions, to operate publicly owned infrastructure services. This management arrangement leaves the existing publicly owned organisational structure undisturbed. Under this institutional option, the main components that account for good performance include the existence of a basic legal framework of contract law complemented by regulatory mechanisms that check private cartels formation; existence of clearly specified performance targets that are easily monitored and where poor performance or non-performance attracts sanctions; awarding of contracts through a transparent and competitive system such as tenders; and the presence of managers with adequate skills to negotiate contracts and to monitor performance. Most of the six councils studied have indicated that they would find this option attractive if only financial resources would allow them to adopt it.

*Private Ownership and Private Operation:* This option facilitates private ownership and operation (which includes co-operatives) in service provision. However, the private sector is usually not keen to enter the market when the service has a high commercial risk or the process of collecting user fees is taxing. This option operates better under conditions whereby the government regulatory framework is well equipped to shield public interest when it is threatened and when the market discipline is not sufficient to guarantee this; and access to foreign exchange, markets, credits, etc., is easy for the private sector. A number of private companies have entered into the market, particularly in the sewerage sector where they provide sanitary services to private owners of septic tanks and soakaways. Lusaka is particularly utilising these.

*Community-cum-User Provision:* This last option is commonly applied in delivery services that are highly localised and using relatively small-scale infrastructure. The option offers good promise in meeting the social services demands of those in unplanned settlements (e.g., communal boreholes supplying ground water; local drainage and sanitation systems; solid waste disposal; etc.). The ingredients for a good record of performance under this institutional option are several. Firstly, they call for the participation of users and other stakeholders in all project phases: preparation/planning, implementation and monitoring and evaluation. Secondly, participation mechanisms should be well defined and individual roles and responsibilities clearly specified. Thirdly, training opportunities for user groups and

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their animators/ intermediaries should be made available, mainly with the help of locally-based NGOs or sectoral agencies. Finally, technical advice should be made readily available regarding low-cost and environment-friendly local technological options. It is noteworthy that this option is usually complementary to, rather than a substitute for, more the central and large-scale delivery services presented above. A number of donors and NGOs are quite active in Zambia under this option. In Lusaka, Irish Aid has a long-standing support programme in Kamanga unplanned settlement, and JICA has a similar arrangement in George Compound.

Against the above background, management processes are most successful when *commercial principles* are employed in services delivery. This postulate is founded on the assumption that infrastructure and services provision is a service industry that should be responsive to consumer demands and undertaken against clearly defined targets and performance objectives. Consequently, management processes at this level should include well-defined budgets that significantly depend on the service provider's generated revenue from, *inter-alia*, the users of services. The water supply and sewerage sectors possess attributes that make them strong candidates for operating under commercial principles. Solid waste management too can easily be carried out more efficiently and effectively under contract by the private sector.

Commercial principles in service delivery have other advantages. Financial and management autonomy, which holds service managers accountable for their actions and performance, is as important in improving service delivery as the absence of undue political interference exerted on service managers as has been the case in almost all the councils reviewed in this Study.. Equally important, stakeholder involvement in management processes enhances project sustainability and provides the service agencies with the requisite information that is useful in meeting consumer demands.

Equally noteworthy, community participation in project formulation in ISP, as well as in actual maintenance of facilities, is crucial for the success of services provision. The development of this form of partnership - that should involve the public and private sector, NGOs, community organisations and ultimate beneficiaries - is essential not only in terms of their material inputs but, equally important, the use of their presence in councils to establish *actual* community needs and demands and alter these in the light of increased demand for the services as expressed by the beneficiaries themselves. The community members' direct involvement in services provision also brings in another yardstick of programme success: that of the relative ease of mobilising material support from the users (including the willingness to pay cost-recovering tariffs and rates) when the people see themselves as *owners* of the delivery system. In other words, stakeholder involvement in management processes enhances project sustainability and provides the service agencies with the required information that is useful in meeting consumer demands.

### 6.5.2 The Current Situation in Zambia

As shown in Chapter Three, the Zambian government has adopted the policy of decentralisation where a premium is being placed on the direct involvement of the private sector in the delivery of services. This policy comes against the background of

several decades of state-dominated provision in almost all the main economic spheres. In Zambia presently, there exists adequate legal and institutional scope for the establishment of partnerships in services provision. The entry of the private sector in the delivery of water resources and environmental infrastructure services is not restricted by legislation, particularly in the light of the country's policy of liberalisation. What appears to be the main obstacle is the general inability of the private sector, under the current economic adversity, to meaningfully diversify into these areas. Similarly, the interference of the central government in the councils' autonomy to set cost recovery charges and rates continues to compromise the effectiveness of commercialisation principles and, consequently, provides a partial explanation for the generally slow pace with which the private sector is entering ISP. Moreover, the dominance of state provision has tended to make many potential partners unsure if these service areas are restricted only to state and local government service agents.

The above state dominance in ISP has compromised community and private sector participation in the management and actual delivery of ISP. Over the years, communities were made to believe that water, for example, is a free good that should be delivered by the central or local government authorities with no or very limited involvement of the consumer. The financial, organisational and manpower capacities of the government now demand that a considerable burden of services provision should be transferred to the beneficiaries. However, the culture of free services provision is yet to be changed, not only among the communities, but also among those that are given the executive tasks (e.g., councillors in municipalities) to influence the people on improved systems of delivery.

### 6.5.3 Experiences in the Sample Councils

The involvement of the private sector in ISP is presently still weak in Zambia. All the councils covered in this Study acknowledged the importance of sub-contracting some of their services to the private sector. However, they will not be able to effectively facilitate this until their revenue bases improve and they are in a position to retrench excessive staffs that presently take more than 90 per cent of their revenue in terms of salaries and personnel-related recurrent expenditures. Notwithstanding this, the following positive developments are worth observing.

#### 6.5.3.1 *Privatisation*

So far, there is hardly any public-private sector partnership in ISP in the six sample councils for this Study. What is closer to this relationship is whereby the central government sub-contracts private companies to undertake ISP activities in councils' jurisdictions but often without the latter's direct involvement. The Livingstone City perhaps one council that has been relatively close to its externally funded water and sewerage rehabilitation programme, but, even here, the Council is not directly in control of the programme's financial resources. In Lusaka and Ndola, the road rehabilitation programme is principally being controlled by the Roads Board, and the involvement of the Council has remained minimal. There is a growing realisation in Zambia that government withdrawal and the subsequent take-over by the private sector of tasks that were previously the monopoly of the state sector often take time, especially under conditions where private initiative is held hostage to a legacy of past inhospitable state-market relations. One crucial consideration here is that, in the short-

term, market liberation in ISP tends to be disruptive, particularly in a country like Zambia where the policy regime for a long time ignored market signals in the determination of infrastructure service tariffs and rates.

Notwithstanding the above limitations to the growth of partnership in service provision, a number of organisations other than government operate water and sanitation schemes but often targeted to specific groups of people. In Zambian mining towns such as Kalulushi, for example, the mining companies provide water and a limited range of environmental infrastructure services in their mining areas and residences (see Chapter Five for details).

#### *6.5.3.2 Commercialisation*

Government policy is to establish utility companies that operate on commercial principles. Two such companies are now functional: the Lusaka Water and Sewerage Company and Chipata Water and Sewerage Company. Several other councils in this Study's sample are working on similar systems. The Water Supply and Sanitation Bill of 1995 established the National Water and Sanitation Council (NWASCO), whose main objective is to regulate the supply of water and to facilitate the establishment of sanitation services.<sup>90</sup> One of the main tasks of the Council is to facilitate the establishment of utility companies (UCs) and monitor their standards. Presently, there are two UCs in operation in Zambia, one in Lusaka (the Lusaka Water and Sewerage Company) and the other one in Chipata in the Eastern province (Chipata Water and Sewerage Company).

Of the six councils in this Study's sample, three (Ndola, Kalulushi and Livingstone) are following the footsteps of Lusaka and Chipata Councils in forming UCs, as follows:

- Ndola will be joined by Luanshya and Masaiti to form Kafubu Water and Sewerage Company.
- Kalulushi will join Kitwe to form Nkana Water and Sewerage Company.
- Livingstone will join sixteen other towns in the Southern Province to form one Utility Company, to be based in Choma.

All these UCs are expected to be operational by April 1999. There are no immediate plans reported for the formation of UCs in the case of Petauke and Chibombo.

The rationale behind the formation of these commercialised utilities ought to be appreciated. Making the agency autonomous frees the management of water services from the bureaucracy of local authority decision-making procedures. In such an arrangement, the management is answerable to the board of directors but the management team is responsible for making and carrying out operational decisions. This means that decisions can be taken quickly in respond to changes and problems. The service is run on a commercial basis, which means that charges should reflect the

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<sup>90</sup> This statutory body is responsible for (i) developing policies and standards; (ii) preparing strategic plans and investment programmes; and (iii) monitoring and regulating water supply and sanitation service delivery and the organizations providing these services.

actual costs of service delivery. The political considerations that have often affected the establishment of water rates in the local authority situation do not play a role under this set-up. Incorporation of the service agency also creates the opportunity to streamline the service in terms of staffing. Those that were kept on in Lusaka and Chipata, for example, were the ones that proved themselves capable in terms of their skills and motivation. Staff members know that complacent attitudes towards work are no longer acceptable, and failure to perform means the possible danger of losing their jobs. In this regard, commercialisation and private sector entry could be seen as an instrument to cope with the problem of over-staffing that has been reported in most councils in the sample survey.

The formation of more UCs suggests that the principles underlying this innovation (see above) have been accepted by both the councils and the central government. However, discussions held with the Water Sector Reform Support Unit (WSRSU) indicate that these companies still exhibit rather weak operational performance, especially with respect to their capacity to recover what is due to them. Their performance, nevertheless, is evidently generally better than that of the councils. This suggests that, if empowered with the requisite personnel and equipment, UCs are a better option in ISP than departments that are directly located under sub-national authorities.

Notwithstanding the earlier presented merits of 'corporatising' and commercialising the delivery agency, there are human costs to providing ISP on a strictly commercial basis. The concentration of services is likely to be in high income areas where charges are high and cost recovery is most effective. This reality is already evident in the case of Lusaka Water and Sewerage Company, where there is no serious indication in the Company's strategic plans regarding addressing the needs of the water requirements of the poor, particularly those that live in unplanned settlements. Presently, the plight of these disadvantaged groups is addressed by some donors that target particular unplanned residential areas for water supply (e.g. JICA in George Compound and Irish Aid in Kamanga Compound, both located in Lusaka). Yet, in Zambia, it is in the low-income and unplanned areas where services are least available and where the needs for improved water and sanitation are most acute. These are also areas where the collection of charges is most difficult and, thus, least effective. These factors render such areas less attractive in business terms and, therefore, a lower priority for a private company. Thus, the question that remains is how to ensure that, under this arrangement, the provision of services achieves a balance between the economic imperatives of the company to make money and the social needs of the whole population for adequate and clean water services.

Two central issues need to be addressed in the light of the above. Firstly, a policy gap exists through which the needs of the urban poor currently fall between a *de jure* cross subsidisation policy and the *de facto* profit motives of private water companies. Secondly, there is a severe lack, and in some cases absence, of potable water in low-income urban areas. There is, thus, an immediate need to define the extent to which the central government's cross subsidisation policy applies to low-income areas under the control of the private or commercialised water companies.

## **6.6 Basic Constraints on Operational Autonomy of Councils: Land Management and Physical Planning**

The issue of land management, use and administration has been one of the sources of concern in the country. Presently, the central government is in charge of land allocation (for both agricultural and residential uses), through the Commissioner of Lands who handles this on behalf of the President. Land is allocated for a specific use. Thus, land designated for residential purpose cannot be used for, say, agriculture without the express authorisation of the Commissioner of Lands, acting on behalf of the Head of State.

With respect to the development of residential property and business premises, the main constraints with respect to land administration, include the following:

- slowness on the part of the councils to open up land for allocation (which has been explained principally by inadequate surveyors and surveying equipment);
- poor building standards due to weaknesses at the plan approval stages and inadequate supervision during construction;
- poor records keeping;
- over-centralisation of processing procedures; and
- insufficient co-ordination between councils and the Ministry of Lands, which ultimately considers and approves applications for property title.

Allocation of agricultural land within the jurisdictions of both the councils and the state has also continued to be a source of concern, particularly to serious investors. As of now, close to 97 percent of farmers in Zambia have no title to the land that they cultivate. A number of factors are responsible. Principally, the 1975 Land (Conversion of Title) Act declared that land has no commercial value, and it cannot be sold unless there are developments/improvements on it. The immediate consequence of this state policy, as reflected in the 1975 Act, was that there was no security of tenure for the majority of farmers. This considerably reduced the motivation and possibilities to invest substantial amounts of money in land improvements and agriculture-related physical infrastructure on such land. It also prevented the average farmer's access to loan capital for large-scale commercial farming, as major financial lending institutions were unwilling to extend loans for investments on land without title. Their activities, therefore, were confined mainly to a small number of commercial farmers. Considering that smallholders account for about 60 percent of agricultural output, this restriction had an adverse effect on land productivity. Overall, the Act prevented the development of a free land market. Foreign direct investment into the Zambian agricultural sector was also inhibited by this piece of legislation, to the extent that it significantly reduced the amount of land that was available for acquisition.

Secondly, under traditional land, titles were not available, as land was perceived to belong to the whole community and, thus, could not be 'personalised'. Although the people that settled on traditional land had a free hand in developing it, the absence of security of tenure minimised their potential to access lending institutions. Consequently, they found it difficult to graduate from subsistence to commercial-scale farming. Yet, this graduation would fundamentally improve farmer productivity.

The government recognised the above problems, and, consequently, the 1975 Act was replaced by the 1995 Land Act, which stipulates that land possessed commercial value and, thus, could be traded. Settlers on traditional land could also apply for title deeds once consent has been given by the local chief. Sub-national governments principally handle this latter category of land applications once the traditional ruler has consented. However, final title is given by the central government, and it is not uncommon to wait for more than 6 months from the time the application papers are given to the Ministry of Land until title is awarded. In most cases, the State gives the applicant title for an initial period of twelve years, after which one has to go through another application process to renew the title for a longer period (99 years). There is no strong rationale for this deferred issuance of the 99-year titles.

The major changes introduced by the 1995 Land Act have important implications for councils with respect to actual land tenure and transactions. To begin with, councils are now involved in the processing of demarcating traditional land where permission for title award has been sanctioned by the chief. This boosts the revenue base of the councils in that more service charges accrue to them. It also means that once people are given the opportunity to have title to their land, opportunities for its development are enhanced in that they can now easily use it as collateral for accessing credit from the financial lending institutions.

Under the Agricultural Sector Investment Programme's (ASIP) land use and tenure policy, the government aims to enhance the efficiency of the land market and strengthen land management capacity for survey and regulation at both the national and sub-national government levels. It also intends to establish criteria for land allocation. The current legislative review to extend land leases from 14 to 99 years; facilitate registration and titling of traditional lands; and allow the sub-division and sale of state farms to groups, including the provision for allocations to landless people in peri-urban areas.

### ***6.7 Constraints Concerning External Finance of Councils***

The poor performance of councils on past loans has made it very difficult for them to access commercial credit. None of the six sample councils examined in this Study revealed any potential, for several years now, to possess the capacity to access financial lending institutions. The creditworthiness of councils is not known, as they do not prepare sufficient financial accounts. The presidential directive to have residential houses belonging to councils sold and the disposal of the commercial assets have further worsened the creditworthiness of sub-national governments.

The above scenario does not offer any opportunity to local authorities to access commercial credit or venture on financial markets. A further constraint in this direction is that the financial markets in Zambia are not yet developed, and their loan portfolios are somewhat limited. The weak state of the commercial banking sector in Zambia, under the current macroeconomic instability, has also added a further complication to the potential of councils to access commercial credit. Under the circumstances, the type of borrowing that sub-national governments need requires central government

support, which has not been forthcoming. The poor performance and weak financial standing of quasi-government financial houses - such as, the Zambia National Building Society, Zambia National Provident Fund, Local Authorities Superannuation Fund, etc. - which were set up to provide capital financing, have compounded the problem further. At the internal level, the erratic, unpredictable and insufficient nature of financial transfers from the central government to councils has worsened their financial base and, consequently, their creditworthiness. Until their financial crisis, municipalities routinely borrowed on bank overdraft, on market terms, to mitigate their cash flow problems. Central government is currently their only source for long-term capital expenditure finance, mostly sourced from donors on soft terms. Other state or private lending institutions now perceive municipalities as poor risks.

### **6.8 Conclusions**

In conclusion, a number of salient features have been observed with respect to the sub-national governments' legislative and regulatory environment. Firstly, there is the absence of a clear regulatory framework in the area of ISP, a phenomenon that has complicated the creation of a supportive environment within which councils can discharge their functions. Secondly, deliberate flouting of laid-down procedures and legislation has been evident at both the central and sub-national government levels. The case in which central government, by amendment of the Local Government Act, continues to approve council budgets is as revealing in checking sub-national fiscal autonomy as the reported incidences whereby MLGH effects inter-council transfers of personnel, contrary to existing legislative and regulatory provisions. Principally, councils lack independent decision-making powers in the fiscal sphere. All capital/development expenditure decisions in the councils are controlled by the central government. Indeed, a number of central government legislative and regulatory interventions have adversely affected the financial status of sub-national governments. These include the fixing of a maximum personal levy amount; the government decision to sell council houses; the non-payment of rates by government; and the severe decline in government transfers.



## CHAPTER SEVEN

### INSTITUTIONAL ENVIROMENT

#### ***7.1 Potentials and Constraints of Councils' Initiatives and Management***

Management and decision-making processes generally refer to activities involving the identification of needs, the definition and re-definition of objectives and priorities, the choice of strategies necessary to fulfil those objectives within a specified time frame and resource availability (both human and financial) and identification of tools for monitoring and evaluating the activities. The technological resources available, which are usually influenced by the availability of and easy access to financial resources (both internally-generated and loans), also ought to be considered in the management process entailing the attainment of set goals and objectives. The often-preferred approach in decision-making is to have well-established and elaborate planning mechanisms, within which the set goals and objectives are systematically assessed and realised. However, it is quite common in developing countries, particularly in sub-national governments, to find the decision-making and management processes confined principally to merely reacting to pressing needs as they arise. Such methods leave very little ground for strategic-cum-forward planning. This crisis management (or 'fire brigade') approach is usually undesirable. It often tends to be impulsive, and it reacts to crises as they emerge even when, with minimum planning and forecasting, events could easily have been predicted.

In the systematic decision-making process, the aim is to make rational choices that maximise, in an efficient manner, the achievement of anticipated outcomes. An important element in both the conceptualisation of goals and objectives and their prioritisation is the need to involve the various stakeholders in the decision-making process in a way that enhances community alliances in service provision. Adequate power, capacity and incentives of the service providers (in this case, the sub-national governments) to routinely examine innovative approaches to improving their management (e.g. through the facilitation of public/private partnerships, contracting out and commercialisation) are all essential elements for the establishment of a supportive institutional management environment for effective service delivery. The degree to which this participatory approach to decision-making, management and implementation is realised is largely a function of the level of civic and political maturity of the country, as expressed in terms of the existence of truly representative services provision agencies at both the national and sub-national levels.

Understanding the sub-national governments' management potentials and constraints requires an appreciation of the underlying priority of the 1980 Local Administration Act discussed in Chapter Six. This legislation facilitated the supremacy of the then ruling party, whereby (a) the priority was given to political objectives and, as such, technical and professional considerations were subordinate to these; (b) decision-making was centralised; (c) finance was centrally controlled; and (d) locally-based

ward committees had no powers to make decisions. Under this scenario, councils' chief officers were reduced to being mere tools of their political masters and were not expected to play an active supportive role in decision-making. This structure constituted the institutional framework within which the decision-making process pertaining to ISP operated before the new government took over power in 1991. With the introduction of the new Local Government Act in 1991, the legal and organisational structure of decision-making at the local level drastically changed, and new structures emerged to replace the largely partisan arrangement presented above. The current institutional set-up of councils, which is analysed below, must be viewed in terms of the foregoing analyses.

A number of legal, resource-related and administrative constraints to the Zambian local authorities' management capacities have so far been identified in this report and are summarised, as follows:

*Absence of Competition in ISP:* ISP by sub-national governments takes place under conditions characterised by the absence of competition. The services in all the councils examined, save for Lusaka, are provided by public and/or municipal agencies that are centrally managed and operated under monopolistic conditions. Considering the management and resource weaknesses of councils, this phenomenon has served as a major constraining factor towards effective service delivery.

*Absence of Financial and Administrative Autonomy:* Although the 1992 amendment to the Local Government Act empowers councils to mobilise resources without reference to the Minister of Local Government and Housing, the situation that obtains presently is that ministerial approval of local authority decisions is demanded prior to their implementation. Central government still insists on having to approve council budgets even in areas where the current legislation has extended autonomy to these sub-national governments. The appointment of auditors is also subject to central authority approval. Thus, councils are not given sufficient financial and managerial autonomy by the legal regime. Moreover, due to the nature of the current management decision-making processes, the councils' chief officers in all the six local authorities examined have been compelled to provide services at sub-optimal prices, as they are usually prevented by the policy-makers (councillors) to adjust prices for inflation, for example. Conversely, chief officers are hardly held accountable for their actions, such that there is a clear absence of well-specified performance measures in both the junior and senior technical and management categories.

*Absence of Commercial Principles in ISP:* The six councils examined rarely employ commercial principles in service delivery. In contrast, management processes are generally perceived to be most successful when *commercial principles* are employed in services delivery.

*Inadequate Access to Private Finance and Utility Suppliers:* Due to their weak creditworthiness, all the councils examined have very low capacities to access private capital in the form of loans. Local governments are not creditworthy due to their poor performance record. Consequently, councils have not been borrowing for many years now. One interesting case, in which a council actually borrowed from a commercial

bank in 1994, was that involving Lusaka City Council for K1.3 billion. The loan was, in effect, negotiated on the instruction of the Minister of Local Government (without the approval of the Council) for the financing of a housing project that later became controversial due to alleged underhand methods involving senior government officials (see Table 4.2.6.1.D in the Annex). This project, to the extent that it originated 'externally', not only disregarded the Lusaka City Council's re-capitalisation priority areas in services deliveries, but, more importantly, it raised the moral question regarding whether it is proper for central government to cause the councils to incur expenditures with recurrent expenditure implications that the sub-national authorities are least able to afford to finance. It is also noteworthy that councils are not allowed, by law, to solicit for external donor support directly.

Councils' access to private bulk service and utility suppliers is also quite low, and in most of the six examined councils (Kalulushi, Chibombo, Livingstone, and Petauke), there has been no hiring out or sub-contracting of private sector operators to deliver the services. The main reason the councils cite is their financial capacity limitations to hire such services. Existing legislation does not prevent council utilisation of private service providers.

*Inappropriate Management Systems and Principles of Delivery:* Another major constraint in sub-national governments' ISP is the persistence of inefficient and inappropriate management systems and principles of delivery. The typical local authority exhibits the following attributes:

- There is poor monitoring, not only of the level of the services generated (e.g., volume of water supply), but also the actual amounts being consumed. Consequently, there is poor costing of, and low collections from, the infrastructure services that are delivered.
- There is unwillingness, due to political considerations, on the part of councils to adjust, in a timely manner, the tariff levels for their services in response to movements in the cost of delivery, thus leading to a failure to fully recover costs.
- Poor budgeting and expenditure control is prevalent in the state-dominated infrastructure service delivery systems, expressed in terms of (a) a weak link between plans and budgets and (b) an absence of expenditure discipline.

*Control over Council Personnel:* the Ministry of Local Government and Housing still causes inter-council transfers of personnel despite the fact that existing legislation provides that each council is autonomous and independent from the other sub-national authorities. This has compromised the degree to which councils are independently able to control and utilise their human resources.

*Absence of Performance Measurement Criteria:* In all the six councils examined, the absence of performance measurement criteria characterises operations and maintenance, investment management, planning, accounting and audits. With respect

to auditing, none of the councils has audited its accounts for many years. Under such conditions, inefficiency cannot easily be detected.

*Absence of Decentralisation Policy:* The government's policy on decentralisation, though long available in draft form, has not been approved by Cabinet. Consequently, the government, up to now, has not defined, in operational terms, the extent and limit of sub-national governments' actions. Because of this state of affairs, decentralisation and sub-national autonomy have meant different things to different ministries and other stakeholders in ISP, thus resulting in a conflict of operational spheres.

*Weak Ministerial Co-ordination in ISP:* The multiplicity of ministries involved in ISP has complicated the co-ordination function, a phenomenon that has resulted in dispersed energies when closer collaboration and co-operation could have been ideal.

*Fixing of Maximum Personal Levy Amount:* The central government decision, through the 1994 Personal Levy (Amendment) Act, to fix the minimum leviable amount and the maximum levy payable, has introduced thresholds that deny councils the needed flexibility and autonomy to determine payable levy. The elasticity in the sub-national authorities' personal levy income, thus, has been denied by the central government. The same can be said of the arbitrary decisions of government to (a) re-allocate the collection of minerals' and timber levy from councils to the Ministry of Finance and Economic Development; (b) the government's unilateral decision to sell houses that belonged to councils; and (c) the non-payment of rates by government. The situation has been worsened by the severe decline in government statutory transfers to councils. The government grants' unpredictability, in both the timing of disbursement and the actual levels, has made it difficult for sub-national governments to plan their utilisation.

*Inadequate Access to Private Finance and Service Providers:* This Study has established that councils rarely access private finance due to their generally weak creditworthiness. Thus, the capacity of councils to mobilise external resources has been very poor. As revealed in Chapters Four and Six, none of the six sample councils examined in this Study has shown potential over the years to possess the capacity to access financial lending institutions. The creditworthiness of councils is, in fact, not easy to ascertain since they rarely prepare financial accounts.

## **7.2 Decision-making Processes and Capacity to Innovate**

The sub-national governments' capacity to routinely examine innovative approaches to the improvement of their management is very dependent on the quality of their human resources and their incentive to do so, the later being a function of the existence of a supportive regulatory and legislative environment. The nature of the operative environment in Zambia, *vis-à-vis* sub-national autonomy and as discussed in Chapter Five, is such that many of the 'innovations' within the councils are mainly externally-derived and funded; it is rare that a major shift in management style in ISP can be explained by the innovations of the councils themselves.

A few illustrations from the above generalisation would make the picture clearer. Regarding the availability of human resources with the capacity to innovate, the study

of the six sub-national authorities revealed that most of them would greatly benefit from additional managerial and technical skills development through training in new systems of management. Many of the management functions are routine and responsive to day-to-day challenges, with very few signs of strategic thinking by way of projecting into the future and designing alternative strategies and approaches to doing things. None of the six councils studied, for example, has developed realistic strategic and operational plans that give one a comprehensive picture of how best to do things differently in the light of the well-articulated constraints that most of the council officers reported. Almost everyone interviewed at senior management level in the six councils revealed great knowledge regarding the nature of the problems being faced and prescribed innovative approaches to some of these problems. However, this considerable amount of knowledge is rarely converted into some form of concrete action plan to address the problems identified.

A number of factors seem to explain this state of affairs. Firstly, it is clear that the development of a culture of strategic thinking that enables one to translate perceived challenges into new opportunities has not been facilitated in most councils. This could be a function of both the training background of the chief officers in councils and, for those that have the requisite skills in this area, the absence of a supportive decision-making environment that empowers the more innovative managers to translate their visions into positive remedial action. The development of strategic plans, for those wings of government at the central government level that have done this, is usually a product of an elaborate process involving external facilitators who possess the requisite knowledge and tools in this kind of process. So far, none of the sample councils has reported having benefited from such a process.

The issue of skills development for, and retention of, council employees ought to be understood also in the context of the ability of sub-national governments to retain qualified and experienced workers. The conditions of service of councils are currently quite poor, which has made it difficult to attract better-trained personnel, let alone retain the more experienced ones. The regulations pertaining to staff retirement in sub-national governments have also not helped matters. The government decided in 1996 that all staff that had served more than 20 years should be pensioned off. In a bid to reduce the salary bill, the Local Government Service Regulation (Statutory Instrument No 115 of 1996) requires that no person over 45 can be appointed to a permanent and pensionable post. This has tended to lower the morale of the older and more experienced personnel that may still possess the requisite institutional memory with respect to the more successful pre-1980 system of sub-national governance.

The relationship between chief officers of councils and councillors also partially explains the near-absence of innovative approaches to improving sub-national governments' management systems. All the six councils reported the existence of a rather contentious relationship between council officers and councillors. The decision-making system in sub-national governments has placed an unjustifiably high value on councillors in almost all major decisions, including those of a purely management nature. A closer look at this problem is taken below to illustrate vividly the main challenges with respect to the potential and constraints concerning sub-national government initiative and management.

Principally, there appears to be a conflict between councillors and chief officers in some of the six councils studied, emanating mainly from the absence of a clear definition of their respective responsibilities.<sup>91</sup> Problems at Ndola City Council, where the differences between the Council chief officers and the councillors ended up in a legal battle, testify to the existence of deep-seated problems in the local government system. It has been said that councillors decide policy and officers implement the decisions. Chief officers shape the form and context of policy making just as councillors get involved in matters of the day-to-day administration. In the councillor/officer relationship, there are dangers in poor lay/professional partnerships. Antagonisms can mean council members taking decisions without the advantage of professional advice. Conversely, if the councillors leave too much to the officers, accountability problems can arise in which democratic principles can be neglected. The Local Government Act of 1991 does not stipulate or define the respective roles of councillors and officers. As a result, most of the six councils reported having witnessed a trend whereby councillors become too deeply enmeshed in managerial and professional matters in a manner that compromises the council officers' innovation in management processes. The need to encourage closer, but clearly defined, partnership so that councillors and officers can contribute their particular skills and capabilities towards making local policies relevant and effective cannot be overemphasised. Perhaps the most serious conflict between councillors and chief officers of sub-national governments, which has far-reaching consequences in councils, refers to the issue of water tariffs. There has been, for incidence, a general resistance from the councillors to review the water tariffs, with a view to offsetting councils' large deficits.

The problem of the ineffectiveness of councillors in decision-making seems to be explained principally by the low level of experience and educational background for most of them, a problem that was reported in the cases of Kalulushi and Livingstone, but which is an aspect that can obviously be generalised. This situation has had far-reaching implications for the decision-making processes. Firstly, many councillors are unable to participate meaningfully in policy-making, a state of affairs that has allowed the more enlightened local members of parliament (some of whom are cabinet ministers or deputy ministers) to significantly influence the deliberations. The situation is worse in rural-based councils, where the average councillor's educational level is rarely sufficient to facilitate a comprehensive understanding of the frequently complex problems that face the councils. In the past, when there was national debate to have the minimum qualifications of councillors to be grade seven, this was shot down on grounds that obviously overlooked the importance of education and training for persons that have to make far-reaching decisions that affect large populations.

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<sup>91</sup> The role of full council is to investigate and debate policy issues, to decide new policies as recommended by standing committees and to instruct chief officers in the implementation of these. All council decisions must be ratified by the full council, upon which they become Council resolutions and formal Council policy. Chief officers of the councils in the post-1991 system are required to take greater responsibility for guiding and advising the policy makers (councillors) in the pursuit of development policies based on rational and technical criteria. They are also exclusively responsible for the implementation of services in line with agreed council policy. The roles and responsibilities of chief officers are spelled out in Statutory Instrument 56 of 1992.

There have also been problems for chief officers in adapting to the new style of decision-making. Under the new regime, chief officers are required to play a more proactive role in the decision-making process, for they are charged with increased responsibility for ensuring that council decisions are based on sound professional, technical and financial grounds, rather than the political objectives that underpinned much of the decision-making process prior to 1991. Some chief officers have found it difficult to adapt to these new responsibilities, and, in the absence of adequate training and support, they have been unable to perform effectively. None of the six councils examined has an elaborate training policy for both chief officers and councillors, for example. Petauke Council reported that training of its staff has been affected by a lack of co-ordinated training programme and that training in the Council has been done on an *ad-hoc* basis without clear determination of needs and objectives. When all the new councillors in the country (elected on 30 December 1998) were invited to Lusaka for a re-orientation/training workshop, a question arose regarding the utility value of such a large gathering, as opposed to more focused and specialised training that is more relevant to their respective areas.

Against the background of the general performance of the six councils and the management decision-making processes described above, a number of conclusions, with far reaching implications for the effectiveness and efficiency of management processes, can be made. Firstly, the chief officers in these councils that are mandated to deliver infrastructure services are not given sufficient financial and managerial autonomy by both central government authorities and the councillors in an institutional environment that leaves little latitude to councils' managers to play an innovative role in the management of sub-national governments. Due to the nature of the current management decision-making processes, chief officers have been compelled to provide services at sub-optimal prices, as they are usually prevented by the policy-makers (councillors) and the central government to adjust prices for inflation, for example.

Secondly, principles of good governance in service provision have rarely been fully embraced in the decision-making process involving councils and central government. Under the current decision-making arrangements in the average council studied, the users of the services delivered are not positioned so as to have their demands absorbed into the planning processes. This is mainly because of two factors. First, users' participation in services planning, implementation and monitoring has been very marginal, and, thus, opportunities for them to express their preferences are severely circumscribed. Secondly, the sub-economic rates and tariffs that councils ask for their services introduce a negative element *vis-à-vis* the determination of consumer preferences. This is because when prices reflect the actual cost of delivery, the magnitude of the consumers' demand would help service providers to know what should be supplied, as well as the consumers' willingness and capacity to pay for it. Hence, through the price mechanism, consumers' preferences could influence the suppliers' investment decisions. However, under the average council's conditions, where prices have no relationship to the actual costs of delivery, this important source of information regarding consumer preferences - crucial though it is for informed decision-making for ISP - is foregone. Under such conditions, the studied councils' decisions are generally founded on the councillors' and chief officers' extrapolation of unmet community needs instead of on a rational assessment of service demand and

affordability. Even worse, the controlling role of central government has compromised initiative on the part of sub-national authorities to the extent that almost all their major decisions have to be approved by MLGH.

Under the above scenario, the innovations that are noticeable in councils are often a function of central government decisions, and rarely are they internally conceived and operationalised. For example, the decision to form water utilities in councils (as part of the ISP commercialisation process<sup>92</sup>) was principally conceived from the centre. Interviews in Livingstone, for example, revealed that the City Council has been marginally involved in the establishment of the Southern Province Water Utility that combines the activities of several other towns. The relocation of the Council's water sector to the new body, to be headquartered in Choma (a different town), seems to be of some concern to the Livingstone City Council Engineering Department, which is still unconvinced that the centralised structure shall improve ISP in this area. Thus, while commercialisation of the water sector through the formation of water utility companies has merit (as discussed in Chapter Six), this innovation evidently emerged from the top and rarely took into account the importance of a much fuller involvement of the sub-national governments in their formation (although the companies are expected to be owned by the councils themselves). This marginalisation of sub-national authorities in far-reaching decision-making brings to the fore the need for 'good governance'-cum-participatory-considerations in how ISP is conducted in councils. Irrespective of the merits of a policy or strategy change (like the commercialisation of ISP), it is noteworthy that its success would be dependent, to a considerable extent, on the involvement of all the stakeholders in its conceptualisation and operationalisation. As long as the actual implementers believe that an approach is being imposed from the top, and/or are not given sufficient justification for the change in the traditional approach, the degree of success at the level of implementation is rarely assured.

### ***7.3 The Potentials of Councils' Managerial Approaches***

Councils, like central government, have very weak capacity to attract and retain qualified human resources. The conditions of service, particularly salaries, are so low that it is almost impossible for them to attract qualified personnel, especially at lower management levels where there are few fringe benefits beyond the salary. At the root of management problems are the indiscriminate recruitment policies of the pre-1991 period that resulted in the appointment of a superfluity of workers to posts for which they were not adequately qualified. This has been compounded by the subsequent failure of most of the six councils, particularly the smaller ones (Kalulushi, Chibombo, and Petauke), to attract and retain qualified staff in crucial management, technical and financial positions. Consequently, most of the councils do not presently have the numbers of qualified staff laid down in the staff establishment, and, in particular, they lack senior managers with the requisite qualifications and experience. However, most of them also suffer from over-staffing at lower levels. Their retrenchment programmes

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<sup>92</sup> As noted earlier in Chapter Six, Ndola will be joined by Luanshya and Masaiti to form Kafubu Water and Sewerage Company; Kalulushi will join Kitwe to form Nkana Water and Sewerage Company; and Livingstone will join sixteen other towns in the Southern Province to form one utility company to be based in Choma.

are being compromised by resource scarcity, as they are unable to provide severance packages for those that are earmarked for pruning.

The issues concerning the Zambian sub-national governments' potential to attract and retain suitable human resources is fundamentally influenced by the situation at the macro-level. Presently, Zambia's human resources remain grossly under-utilised and unutilised, and the problem is as much a reality at the central as it is at the sub-national governments levels. The government has identified the need for a comprehensive national training policy, and a National Training Policy document has been developed (although, to date, it has not been comprehensively operationalised). This policy initiative has been necessitated by the uncoordinated and fragmented approaches to human resources development; a lack of data on training needs; uncoordinated training programmes; a lack of sectoral and organisational training guidelines/policies; inadequate linkages between training outputs and the labour market requirements; a lack of support for training by end users; wastage and misplacement of personnel; and lack of monitoring mechanisms to determine the capacity and productivity of the trained personnel to contribute meaningfully to national development. The government, thus, has set itself towards the realisation of the following principles, objectives and guidelines for the internal and external training, development and utilisation of human resources in the country:

- identify training needs, with a focus on linking skills to job requirements;
- map-out clearly identified national training priorities;
- establish a linkage between training programmes and the skills needed in the workplace;
- undertake job assessments and individual performance assessments as part of the training process;
- develop training plans that are consistent with short and long term human resource needs of the country;
- monitor and evaluate the quality of training offered by training institutions;
- create partnership for human resources development between government and the private sectors; and
- facilitate institutions to be accountable to employers for the quality and relevance of their training.

It is further envisaged that a National Human Resources Council will be established with responsibilities for monitoring, reviewing and evaluating the manpower policies of the country and for advising the government on human resources development and utilisation issues.

One of the most important aspects of the human resource dimension regards its role in public sector management, in general, and, for this Study, the management of sub-national governments, in particular. At one level, the public sector (that includes the sub-national sector) has grown so large that its capacity to perform effectively and efficiently has been checked. At another level, because of the above situation coupled with the government's fiscal stringency measures, the public sector has been unable to

recruit and retain the needed well-trained and skilled manpower. The public sector's low salaries; poor conditions of service, particularly for professionals; and a largely uncompetitive working environment have all worked against the creation and consolidation of the required professionalism in economic planning and management. In general, civil servants and council officials in the managerial and professional scales continue to suffer from poor job satisfaction and the accompanying low morale, principally as a function of their being poorly paid and, in some cases, overburdened.

The conditions obtaining in the labour market are responsible for the weakened capacity of the labour force that is evident in all the sample councils in this Study. There has been a tremendous erosion of real wages over the years. The government's Public Expenditure Review document, for instance, states that for all categories of workers in the public sector, the real wages in 1994 were about 42 percent of their 1984 values. The situation has worsened since then due to the continuing erosion of the Zambian currency.

Senior professionals in the civil service, including sub-national governments, are also frustrated by the over-centralised decision-making system in Zambia. For many management structures in the various wings of the civil service, power and decision-making authority have been monopolised by those at the very top in the management hierarchy. Consequently, senior managers are over-burdened, while lower level managers remain largely under-utilised, a phenomenon that has resulted in severe frustration at both the senior and lower level ranks. These limitations, coupled with fiscal austerity measures that have resulted in both the decline in real wages and the narrowing of the already small differentials between lower level groups and management, have combined to weaken commitment to employees' assigned responsibilities. As a result, many professionals in the civil service and local authorities have either devoted less time to their official duties or have opted to become part of the 'brain drain' away from the public sector to either the Zambian private sector or abroad in search of 'greener pastures'.

The importance of recruiting qualified and experienced human resources is very much linked to the overall performance of ISP in sub-national authorities. How the choice of infrastructure is made and maintained, for example, is strategically dependant on the type and calibre of personnel sub-national governments utilise. A number of possible solutions exist in the area of the appropriate instruments for technology acquisition and adaptation *vis-à-vis* infrastructure provision. Firstly, in countries like Zambia, where the state still dominates service provision, it is imperative to decentralise activities related to equipment and 'software' acquisition from the central government authorities to sub-national authorities. This would facilitate municipalities to take appropriate management decisions regarding the acquisition of technologies that are appropriate for their particular local environments. Nevertheless, the role of the central authorities should be recognised at the level of the standardisation of technologies acquired at the national level so that over-diversification of sourcing - which is as uneconomical at the national as it is at the local level - is discouraged. However, the institutional capacity at the municipal- level to choose appropriate technologies from an array of alternatives can be enhanced only by equipping the relevant units with well-trained, experienced and adequately-motivated and remunerated engineers and

technical staff. In most of the sample councils in this Study, the departments of engineering services were too poorly staffed (e.g. in Kalulushi and Petauke) to provide the needed professional guidance to the council with respect to appropriate infrastructure for ISP.

Secondly, a well conceived programme of plant and equipment maintenance, which is supported by qualified personnel and adequately financed, is fundamental in meeting the quantitative and qualitative requirements of consumers of infrastructure services. The technology and infrastructure currently in use in Zambia's sub-national authorities, including all the six councils examined in this Study, are generally old, and, even worse, they have been subjected to very poor maintenance programmes. Initiatives in Ndola, Lusaka and Livingstone to rehabilitate existing infrastructure systems, much as they are commendable, indicate that there have been long years of poor preventive maintenance and irregular repairs of councils' infrastructure. Weaknesses in maintenance are often a product of ill advised and misdirected spending cuts, which are, in turn, a function of the weak capacity of councils to attract and retain qualified personnel. Inadequate maintenance has been a very costly failure of most sub-national authorities in Zambia. Reduced capital spending has been unavoidable in a number of cases during the period of budgetary austerity under the cash budget that has been adopted by Zambia. However, it is often not realised that reducing maintenance expenditure is a false economy, since such reductions are shortly translated into much larger outlays on rehabilitation or replacement (unless the service provision has to be scaled down significantly or abandoned altogether). This is because inadequate maintenance seriously reduces the life span of infrastructure facilities, which, as a result, diminishes the capacity of sub-national authorities to continue providing adequate service (in terms of both quantity and quality). Donor bias in favour of capital goods transfers to developing countries also consolidates preference for new infrastructure investment over the maintenance of already existing facilities. Donor resources actually underwrite more than 70 percent of infrastructure investments in Zambia's sub-national governments. In essence, the real 'rewards' of saving on routine/preventive maintenance are the loss in capacity; the decline in output; and - even more paradoxically - the need for additional new investment to merely sustain the existing level of ISP.

Presently, none of the councils examined has adequate capacity to attract and retain human resources. Their financial woes are discussed in detail in Chapters Four and Six. The development of programmes geared towards human resource development in the 'software' component of infrastructure is equally essential. None of the six councils examined has a clearly articulated training programme for its personnel. In this regard, a well structured and properly focused and targeted training programme for technical staff is strategic.

The Public Service Reform Programme (PSRP) has been put in place, and its coverage includes sub-national governments (see Chapter Three for details). PSRP recognises the need for a more decentralised mode of adjustment planning and implementation through, *inter-alia*, the strengthening of the local government management system. In essence, this calls for the strengthening of local authorities' management by enabling

the decentralisation of specific functions to provinces, as well as the devolution of certain functions to local authorities.

One important consideration in the on-going reform programme is that the retention of qualified personnel in councils needs to be complemented by an effective organisational performance monitoring mechanism that should strive at setting clearly spelt, measurable and realistic organisational objectives. Unfortunately, nothing along this line has yet been implemented. It is further recognised that such a mechanism would remain of limited value unless a supportive and effective management information system is established. Such a system should be able to provide accurate, reliable, timely and user-friendly data that is required not only for organisational performance monitoring of key ISP indicators, but also for the broader aspects of policy analysis. The absence of this type of information in all the six councils<sup>93</sup> also diminishes the central and sub-national governments' ability to respond accurately and promptly to incoming signals and emerging trends. The sub-national governments' capacity in economic forecasting, programming and strategic planning also depends on the availability of timely and reliable data.

All the above considerations underscore the importance of adopting target-oriented performance management systems that should clearly set the institutional targets that must be realised within a clearly-specified time-frame and in which measurement of success is done through reliable performance indicators.

#### ***7.4 Potential and Actual Introduction of New Methods and Information Technology in Management***

One of the main constraints that compromises effective decision-making in Zambia's sub-national governments today is inadequate policy and planning-relevant information and data generation. As is true at the central government level, informed policy-making and planning at the sub-national level is impossible to achieve without the existence - and availability in a user-friendly manner - of timely, reliable and accurate data on such aspects as the proportion of water supply that is lost through leakages or even through illegal connections; population size and its projected growth; ability and willingness to pay for the services rendered; volumes/amounts of what is consumed; land availability and utilisation; services demand; quality of water delivery; the level of solid waste build-up; real property value; natural resources; etc. The absence of this data in a user-friendly form means that it is hardly used in planning and decision-making, let alone shared with other sub-national authorities through networking. Except in the larger councils, this Study experienced severe difficulties in gathering reliable data on the sample councils' activities.

Complementary to this, the development of relevant management information systems that support the planning process is most needed in the organs that are charged with

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<sup>93</sup> Ndola is somewhat different in this regard. The Council has over the years build a sizeable amount of database that has been quite useful in management decision-making. The fact that the Council has also been subjected to a number of studies has contributed to its being in a much better position in terms of ISP data.

ISP. The absence of management-relevant data covering the fields itemised above compromises forward planning in the delivery of services. All the sample councils examined in this Study exhibited serious deficiencies in data availability and the management of the little that is available. In some councils, even data on the employees on their establishment is not readily accessible. The net result of this state of affairs is the following:

- The sample councils undertake little systematic analysis of their internal procedures of work functions, with a view to improving on their performance record through, for example, the optimal realignment of the existing processes and procedures to their resource (both financial and human) and management capacities. Consequently, no reforms in their management systems have been introduced for a long time, and any minor changes with respect to procedures are often products of central government directives.
- Information and communication technology is used in a productive manner only in the larger councils such as Lusaka and Ndola. The electronic mail system, for example, has not yet been fully utilised, and telephone services are usually disconnected due to non-payment of bills. Computers are used in many of the councils covered but often in a very rudimentary manner and, more intensively, as word processing 'type-writers'. Lusaka, Kalulushi and Livingstone maintain all billings, personal ledger, payroll and expenditure and income records on mainframe computers. They seemed wedded to the mainframe concept and unfamiliar with the power, potential flexibility and relative cheapness of modern PC-based networked systems. Similarly, all the councils in the Study sample, with slight variations from one council to another, have outdated financial management and accounting systems (e.g. manuals) that are not flexible enough to accommodate the latest developments in the field of financial management and accounting. Overall, the full capacity of the computers and related software is hardly taken advantage of, in both communications and data processing, for improving the expediency and quality of their administrative and management processes and performance.
- Data sharing and dissemination is quite poor in most councils. Presently, none of the councils reported any significant data-sharing arrangements with other councils on such issues as land use, real property, tariff setting, etc.
- None of the six sample councils in this Study reported systematic staff training action plans that aim to improve

management performance of their employees. Training opportunities usually become available in an erratic manner and usually are a result of donor support.

At the macro level, one of the components of the government's Capacity Building in Economic Management Initiative is the strengthening of the country's information and data generation capacity. The aim of this component is to enhance the human and institutional capacity of national and sub-national units to generate adequate, reliable and timely data in support of sound planning and management. Capacity building in this area is to be achieved through training (short- and long-term professional studies; study tours; secondments; training workshops; and on-the-job training). So far, the studied councils have not benefited from this initiative.

### **7.5 Technical Management Capacity in Relation to ISP**

The technical capacity of sub-national governments has been compromised over the years by the following factors:

- The councils are generally unable to employ qualified and experienced personnel that are innovative and possess the requisite skills to provide quality ISP.
- Supportive infrastructure and financial resources are lacking to implement comprehensive ISP programmes that address the actual demands of the target populations. This is worsened by the current poor state of the economy (see Chapter Four).
- Strategic planning data on the demand profile and technical specifications of the needed infrastructure and services are absent.
- Policy on infrastructure development is unclear, especially with regard to the interface between central and sub-national governments, on the one hand, and the public versus the private sector, on the other.
- Most councils do not have a comprehensive development and maintenance strategy.
- There is insufficient technical expertise to fully utilise and maintain the equipment.
- Placement programmes for tools, equipment, plant and machinery are lacking.

Some illustrations from the sample councils would shed light on the gravity of the problem in councils. In Petauke, for example, as at 30th March 1998 (when a staff audit was concluded), there were 128 staff, broken down as follows:

DEPARTMENT	NUMBER OF STAFF	VACANCIES
Administration	53	4
Finance	40	5

Works	34	6
Planning	1	-
<i>Total</i>	<i>128</i>	<i>15</i>

As can clearly be discerned, the number of administrative staff in Petauke who are directly concerned with the well-being of the council itself were in majority, whereas technical staff concerned with either raising revenue or assigned to ISP in the Works Department are in minority. Similarly, while chief officers are qualified, there is a dearth of technically qualified staff among supervisory and middle management officers, particularly in the technical fields. Consequently, in terms of personnel, the Council is ill equipped to provide more and quality services to the local community.

The same situation was reported in Kalulushi. As of February 1999, the Council's Engineering Department reported the following vacancies of positions that are strategic to the ISP establishment:

- Mechanical Engineer
- Assistant Lands Surveyor
- Assistant Superintendent (buildings)
- Assistant Superintendent (mechanical)
- Assistant Superintendent (roads)
- Building Inspector
- Draftsman
- Assistant Draftsman

For a small council like Kalulushi, the above picture illustrates the generally poor state of ISP by the Council.

Presently, there is no comprehensive programme for the improvement of technical management capabilities of sub-national governments. As seen in Chapter Five, there is, however, a drive towards the involvement of the private sector in ISP through the privatisation and commercialisation of service delivery.

## **7.6 Financial Management Capacity**

The current government approach to public expenditure management is given in its 1991 Party Manifesto, as follows:

The MMD shall adopt strict financial management and sound budgetary control. The chronic budget deficits which have resulted in Zambia experiencing run-away inflation shall be arrested by streamlining the public service; de-linking political parties from government; ... encouraging those government institutions with potential for undertaking commercial activities to do so; selling off as many state-owned enterprises as possible; ... reducing and eventually eliminating deficit financing; and subjecting all budgetary expenditure without exception to parliamentary scrutiny.

Compared to what obtained during the pre-1991 period, whereby there was hardly any explicit and consistent public expenditure strategy, it is clear that the present strategy is more straightforward and coherent in macro-economic terms.

Notwithstanding the above, real problems appear at the level of operationalising the above policy position on public expenditure management. Perhaps the major weakness at the national level, which extends to councils because of their high dependence on government transfers, is the weak link between plans and budgets. For a long time until quite recently, and more so during the pre-1991 period, Zambia's planning and budgeting systems remained largely separate and uncoordinated activities. These systems were essentially a mix of institutionalised and *ad hoc* procedures. Although the now abandoned Five Year National Development Plans (FNDPs) and the new approach of Policy Framework Papers (covering three years and reviewed annually) are/were expected to feed into the annual budgeting process through the Public Investment Plans, this has not been the case in practice. While the FNDPs were always too detailed and provided figures that were based on unrealistic resource projections, the Policy Framework Papers, similarly, tended to be of sub-standard quality. These documents were often ignored by the Ministry of Finance and Economic Development, and, consequently, budget circulars have generally assumed some prominence. This is particularly so for recurrent funding, where no realistic planning really took place and budgeting was for a long time principally on an incremental basis until recently when activity-based budgeting began to be attempted (though with some serious difficulties under the cash budget regime). There isn't really a budget earmarked for personal emoluments at the national level, for example, as actual expenditure is determined by the payroll records. Considering that this category of recurrent expenditure (salaries) constitutes the bulk of the government spending, it is little wonder that the state has found it difficult to alter significantly its expenditure composition and pattern despite the innovations in expenditure control and budgeting.

Some of the above problems are due to management capacity weaknesses: the absence of analytical capacity in the economic planning ministries. The Ministry of Finance and Economic Development, for example, has severe staffing shortfalls, particularly in the area of qualified accountants<sup>94</sup>. This problem is compounded by the fact that the existing financial management personnel do not utilise the tools that are usually assumed fundamental to this exercise. For example, it was only after 1993 that budget preparation effected year-on-year changes in resource allocation, using pre-determined government priorities as criteria. Before that, budgeting involved merely incremental adjustments that were founded on very subjective and crude assumptions, employing the 'cascading' process: the Ministry of Finance began with the total allocations to recurrent departmental charges, personal emoluments, etc. Then, the Ministry divided these amongst the three main sectors of public administration: economic, social and administration. After this, the officials calculated what was due to each sub-sector,

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<sup>94</sup> For more details, see Saasa, O.S, et al. (1996), *Capacity building for economic development in Zambia: Challenges and Prospects*, Consultancy report commissioned by the World Bank, Washington, D.C., November, 1996.

sub-head and line item. The absence of timely information and little broad consultation seemed to have explained this poor budgeting practice at the national level.

Related to the above problems is the evident absence of expenditure discipline, almost across the board at the national level. The routine authorisation of supplementary budget allocation has worsened expenditure discipline, in the sense that no emphasis is made on the supply of realistic estimates of sectoral requirements. The extensive use of supplementary allocations - often above 30 percent of the budget figures - has the propensity to undermine bureaucratic accountability, since, in most cases, they are approved retrospectively. This problem appears to be so serious that although, in the 1993 Budget Speech, the Minister of Finance announced a ban on this practice, the government subsequently authorised a 30 percent supplementary allocation in that year.

The above is a demonstration of poor budgeting and expenditure control at the national level. How is the situation at the sub-national government level? It is noteworthy that the mechanisms of accountability for local government expenditures are extremely weak, if existent at all. Proper financial controls and management practices are almost alien to most councils, a phenomenon that has seriously undermined the councils' ability to provide the required public service functions. As earlier observed, most of the councils in Zambia have not prepared audited financial statements for many years now.

One of the main problems in the local government system is the inadequate staffing of financial planning and control units. Moreover, the absence of enforceable guidelines on budgeting and expenditure control at the sub-national level further contributes to the weak financial control at levels lower than the province in the country.

The failure of all six councils examined in this study to determine cost-recovery rates from users of services has, perhaps, the worst impact on the councils' financial viability. Presently, despite the government's policy of extending financial autonomy to councils, new levels of rates require a committee resolution to be approved by the council and then by the central government before they are levied.

In an effort to address some of the above capacity limitations, the government, under its Capacity Building in Economic Management Initiative, has introduced the Development Planning, Programming and Budgeting component. This project seeks to reorient the planning system and involves a re-examination of the Policy Framework Paper (PPP) and the Public Investment Programme (PIP) approaches to economic management. When operational, it will emphasise public expenditure planning and the integration of planning and budgeting. So far, this Initiative has not had any positive impact on the financial management capabilities of councils *vis-à-vis* ISP. Box 2 highlights the lack of realism in the municipal budgeting processes of a typical council in Zambia and demonstrates the degree to which they deviate from being tools for financial planning and management.

<b>Box 2: TYPICAL MUNICIPALITY ANNUAL BUDGETING PROCESS: AN UNRESOLVED ISSUE</b>
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There are so many serious defects in the annual budgeting process as to render the exercise almost meaningless. It seems almost wholly to be in the hands of finance departments. Service departments are requested to submit proposals (usually in September/October) but there is no prior strategic review of likely available resources and spending priorities, and the received submissions are often ignored as being wholly unfinanceable. Preparation of the budget document is usually a lengthy process. The drafts are submitted direct to the Finance and General Purposes Committee (FGPC) with little prior consultation with their chairmen, or even with Mayors. Services committees are not consulted at all.

Budget formats... conform with central guidance issued many years ago. They consist of a number of summaries, followed by many pages of detail, in technical accounts format. Not even the summaries are of any real use for informed debate on resources allocation, and nobody other than an experienced local government accountant could be expected to be able to interpret the detailed Tables. There is no supplementary data explaining service levels, etc., which might throw light on the implication of the proposals. Further confusion is caused by liberal use of inter-vote recharges, many of which are not identified in the expenditure analyses, and which lead to summaries including fictitious amounts of revenue and offsetting multiple counting of expenditure.

Notwithstanding the dominance of the finance departments in budget preparation, the responsible officials mostly show little awareness of the expenditure needs of the services for which they are budgeting, being unable to quote basic operational statistics such as staff numbers, unit costs, and client populations served. The draft budgets presented to the FGPCs generally show current accounts deficits. The accompanying brief reports confine themselves to stating the proposed rate poundage and increases in fees and charges estimated to be required to cover the deficit. Once agreed, the summary Tables are amended in accordance with the FGPC decision, formally approved by full Council, and submitted to Ministry of Local Government and Housing for approval.

The amendments to the draft budget summary made following FGPC decision are not carried into the detail supporting Tables which allocate provisions over services. The latter cannot therefore function for either of the two principal purposes of an annual budget, namely (a) as the financial plan allocating resources for the year; and (b) as the basis for control of program implementation. Revised budget estimates are only produced concurrently with the preparation of the budgets for the succeeding year. In view of the timing, their approval amounts merely to a retrospective endorsement of changes which have already taken place - often, on the expenditure side, mainly reflecting the actions of officials. Yet the variations from the original budgets are frequently very substantial. One is led to the conclusion that, for practical purposes, there is no effective financial plan governing municipality operations.

**SOURCE:** World Bank (1995), *Urban Restructuring and Water Supply Project*, Staff Appraisal Report, Zambia, Energy and Infrastructure Operations Division, Southern Africa Development, Washington, D.C., April, pP.56-7.

Related to the problem of weak capacity to run commercial ventures is the failure by almost all councils in Zambia to determine cost-recovery rates from users of their services. This state of affairs has historical origins, to the extent that, for a long time, consumers believed that the government should provide infrastructure services free of charge. Cost recovery has not been emphasised in the past, and as late as 1979, residents in council housing were consuming 200 litres of water per capita per day without paying for it.

The sub-economic rates and tariffs that sub-national governments ask for their services introduce a negative element *vis-à-vis* the determination of consumer preferences. This is because when prices reflect the actual cost of delivery, the magnitude of the consumers' demand helps service providers to know what should be supplied, as well as the consumers' willingness and capacity to pay. Hence, through the price mechanism, consumers' preferences can influence the suppliers' investment decisions. However, under the current ISP conditions in Zambia, where prices have no relationship to the actual costs of delivery, this important source of information of consumer preferences is foregone. Under such conditions, municipalities' decisions are generally founded on their respective Councils' and chief officers' extrapolation of community *needs*, instead of a product of a rational assessment of service demand and

affordability-cum-willingness to pay. This study has revealed that, at least for the six sample councils, the principle of cost recovery, as it relates to the provision of council services (particularly water), has not been achieved. As a result, the fiscal conditions that obtain in these sub-national authorities have worsened.

The effect of the above state of affairs on ISP, as outlined below, has been more devastating than is often realised:

- The pattern of sub-national government expenditure has been biased in favour of payment of salaries and wages.
- The average council has not prioritised its areas of ISP. It has, thus, tried to stretch its declining resource base to cover wide range of ISP, while employing the same methods that it has always adopted (e.g. direct labour and by capital intensive means). This approach has revealed the weak institutional capacity of the management and technical staff to be innovative in their management processes.
- The served population has continued to expand at a speed that is not related to the capacity of the councils to expand their ISP, especially considering the fact that the central government has continued to transfer responsibilities to sub-national governments without corresponding fiscal transfers to meet the added responsibilities.

The sub-national authorities' weak capacity to implement their plans seems to be at the centre of the average council's failure to realise the government's policy of decentralisation. It is inconceivable to expect much improvement in ISP as long as these constraints remain unresolved.

The evident absence of commitment by council officials to the operations of effective financial management has led to inappropriate utilisation of funds, a phenomenon that has resulted in the central government's justification of its undue interventions in local government financial jurisdiction, contrary to the legislative provision. The low calibre of accounting and auditing staff in local authorities has adversely affected the quality of audits carried out on sub-national financial transactions. Furthermore, backlogs resulting from a lack of frequent/periodic audits have made it difficult to hold responsible officers/councillors accountable for their financial transactions/activities. This negates the whole justification for auditing and weakens financial accountability. It further undermines the effectiveness of the responsible financial committees. Unwieldy bureaucratic procedures, in terms of the appointment and mobilisation of local government auditors to carry out auditing of books of accounts in local authorities, have resulted in unnecessary delays to the extent that some culprits have been allowed to go unpunished. Despite MLGH advising councils to set up audit units to enable them monitor the utilisation of funds and take early corrective measures to protect public funds from abuse and manipulation, some councils have not yet done so due to financial and human resource constraints.

The weak financial management capacities of sub-national governments can further be confirmed by their performance at the levels of (a) the main local tax that councils levy; (b) their use of the external expertise and experience of regional banks; and (c) their

ability to borrow funds and enter into equity financing arrangements. In all the above, the examined councils have proved to be quite weak. With respect to (a) above, the main local tax that councils levy is the rates (tax on built property). All the examined six councils' budget estimates show that the real yield of the rates has been declining in real terms over the years despite substantial increases in their rates poundage (i.e. property tax tariffs). The extent to which the councils are able to collect the dues (a factor that is closely linked to the consumers' ability and willingness to settle the bills) is still weak in all the councils examined, and there is no evidence that there is serious initiative by management to improve the situation. The exception is Lusaka, where the Lusaka Water and Sewerage Company has recently introduced (and is still intensively advertising) an attractive credit facility for water consumers, whereby payments for accumulated water bills are staggered over a long period, while prompt payments now attract a 30 percent discount.

Equally noteworthy, most council house tenants used to pay water bills at the same time they were settling their rent arrears. After the presidential decree to sell council houses, tenants now pay neither rent nor electricity bills, especially since the central government has barred eviction from council houses. For the most part, sitting tenants in the sold council houses have paid only a nominal fraction of the value of the houses, and the government has been shifting the due date when councils could move in and press for the settlement of the outstanding amounts. Although councils would still levy rates on these properties, it is important to realise that the income to be derived will be much less than the current rental income because of the reduced ability and willingness of the new, relatively poor, tenants to pay the rates. Moreover, many of the council houses are yet to be valued and titled before an assessment for rates can be effected. Furthermore, the councils have inadequate personnel, expertise and financial resources to do this in a timely and efficient manner.

Against this backdrop, the average council's administration of the rates has generally been weak throughout the process from budget estimation, through rate poundage fixing, to collection. Several decisions of the government over the years have also compromised the opportunities, real or potential, of the sub-national governments to raise the much-needed revenue for ISP through improved rates policy. This phenomenon has introduced far-reaching implications for the sub-national governments' autonomy in the identification of what is rateable, let alone the actual level of tariffs.

With respect to the use of external experts and experience of regional banks, one observes that councils' capacity is limited by their resource constraints and poor creditworthiness, as discussed in Chapters Four and Six. The expertise of the regional development banks often comes as part of a loan/grant facility, as has been the case with the African Development Bank under the Livingstone City Council water and sewerage rehabilitation programme. The World Bank is also supporting the rehabilitation of water systems in Lusaka and Ndola through a loan arrangement. The Development Bank of Southern Africa (based in South Africa) is also concluding a financing facility for the supply of electricity to a farming area in Mukushi District. What is particularly noteworthy in these arrangements, as discussed in Chapter Five, is that the use by councils of external resources, including foreign expertise, is usually

done through, and managed by, the central government. Consequently, it becomes difficult to establish the capacity of the councils themselves to engage in the needed negotiations, let alone manage the transactions involving external actors.

With regard to the sub-national governments' ability to borrow funds and enter into equity financing arrangements, Chapter Six has revealed that the councils' lack of creditworthiness has remained the main obstacle. Councils' borrowing from the local lending institutions ceased many years ago, and the only recent exception, at Lusaka City Council and as reported in Chapter Six, was engineered by the central government. With regard to entering into joint equity arrangements, none of the councils is involved in this in any significant way. However, the private sector has been used sparingly in road rehabilitation and maintenance, although, even here, the role of the central government in actual management of the contracts has tended to be overriding.

While appreciating the difficulties of councils that are principally induced by the central authorities, one still observes serious financial management capacity weaknesses at the sub-national levels that work against the efficient budget implementation and control processes. Regulations presently require that every commitment to expenditure incurred by a spending department must secure the prior authorisation of the finance department. Such authorisation should be given by reference to budget votes. However, in practice (as revealed by interviews conducted through this Study), almost all the six sample councils appear to take decisions according to the municipalities' cash position and their views on the degree of urgency or priority, thus confirming the ineffectiveness of their current budgets and accounting systems. In a number of the sample municipalities visited, the expenditure control system appeared virtually to have broken down. Spending departments were incurring commitments on their own, subsequently presenting invoices for payment, usually successfully.

## **7.7 Management and Decision Making: Land, Water and Other Key Resources within the Sample Councils**

### **7.7.1 Land Management**

Chapter Six (section 7) addressed, *inter-alia*, the basic constraints concerning the operative autonomy of sub-national governments with respect to land management, land use, and land registration. It has been revealed that the central government is in charge of land allocation through the Commissioner of Land. With regard to residential property and business premises development, this Study has identified in Chapter Six a number of constraints regarding the capabilities of sub-national governments to handle and manage land as one of the key resources at their disposal. The identified constraints include the following *vis-à-vis* land administration:

- councils' slow speed in opening up land for allocation, primarily due to inadequate and inexperienced surveyors and insufficient surveying equipment;
- poor building standards, as a result of management weaknesses at the plan approval stages and inadequate supervision during construction;

- poor records keeping; and
- over-centralisation of processing procedures, compounded by insufficient co-ordination between sub-national governments and the Ministry of Lands, the agency responsible for approving applications for property title.

Actual land planning and management, particularly with respect to residential plans and maintenance of standards, is handled by councils that authorise building plans within their respective jurisdiction. Prior to the processing of title of tenure, which is handled by the central government, councils play an important role in the actual allocation to individuals.

Notwithstanding the positive policy developments following the passage of the Land Act of 1995, a number of institutional and management capacity weaknesses continue to compromise the realisation of anticipated benefits. Firstly, in spite of the sudden surge in applications for title deeds, land administration procedures have remained both protracted and over-centralised. The Survey Department of the Ministry of Lands has continued to be under-staffed and, thus, has made very little progress in opening up land in response to increased demand. This negative state of affairs is worsened by the limited co-ordination that exists between the government's related portfolios. Despite being in the same building, the Ministries of Agriculture, Food and Fisheries (MAFF) and Lands only marginally co-ordinate, with respect to the ASIP challenge for streamlined procedures in land acquisition.

The stipulated decentralisation of land administration to provincial headquarters, up to now and several years since it was announced, has not taken off. The only office that has so far been opened is in Ndola, and it is intended to serve three provinces: the Copperbelt, Northern and North-Western Provinces. However, even at this level, cases are still being referred to the Ministry of Lands' headquarters in Lusaka. Evidently, there is reluctance on the part of the government to devolve responsibility for land allocation to lower levels than the centre, a phenomenon that has far reaching adverse impact on the councils' ability to effectively handle their part of land management function.

Lastly, one of the major constraints regarding land management relates to the protracted, and overly bureaucratic, allocation process,<sup>95</sup> which has opened itself to corrupt practices as land applicants are forced to pay their way into receiving privileged treatment. The fact that the process is quite disjointed, involving poorly co-ordinated central and sub-national authorities, has resulted in long delays for title holders in making investment decisions. The case of Livingstone City Council and the

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<sup>95</sup> Presently, the process is as follows: The council identifies land for demarcation. Then, the surveyed land is advertised (although this is not always the case). This is followed by the interviewing of applicants, and, usually after a long period of waiting, successful applicants are notified. Then, property title applications are initiated through the council to the Ministry of Lands. It is rare that actual title is made available within two months of application. For land outside the jurisdiction of councils, the local traditional chief must authorise the offer of land to the applicant before the above process is initiated. At this 'traditional level', there is no laid-down procedure regarding the mode of application to the chief, let alone the specification of the maximum time the chief may take before he decides on the application's status. The process that traditional chiefs use to decide on the applications varies from chief to chief, and the individual ruler's personal preferences seem to determine the outcome more than an elaborate consultative process at the local level involving his/her subjects.

allocation of land to a big tourism investor around the Victoria Falls is quite illustrative of the disjointed manner in which land application management is undertaken and the way it marginalises sub-national authorities, in the process. In this case, the Sun International Group of Hotels has applied for investment in the Victoria Falls area, which is under the jurisdiction of the Livingstone City Council. The on-going negotiations regarding title deeds for the investor have not fully involved the participation of the Council, and yet it is hoped that the investment by Sun International will have far-reaching financial implications for the sub-national authority. So far, the Ministry of Lands and Ministry of Tourism primarily are involved in the negotiations.

### 7.7.2 Management Capacity and Physical Planning

The management capacity of sub-national governments in physical planning is quite weak. All the six sample councils reported that they have experienced difficulties associated with the slow speed at which they have updated their land-use planning, a phenomenon that has compromised the prospects of their jurisdictions' physical development. In most councils examined, including the urbanised Lusaka and Ndola, town planning has lagged behind their spatial development. Presently, Lusaka is literally surrounded by unplanned settlements that have defaced the city. This state of affairs indicates that meaningful town planning cannot take place without having to take the politically unattractive decision to remove the squatters from their illegal settlement. The easy option has often been the 'town planning' approach that entails the upgrading of unplanned settlements, a costly and illogical manner of coping with the urban population pressure. It also implies that squatters actually decide the pattern of development the city takes, and then the council or central government legitimises their 'plan' by upgrading it. Such a pattern of town planning also complicates the process of ISP, as technical specifications are often compromised due to the operational difficulty of 'planning' an already existing and built-up location.

The above state of affairs suggests that although, through legislative provision, sub-national governments have powers to control and influence physical development within their jurisdiction, the exercise of this responsibility has been compromised by their management capacity limitations. Both formal and informal housing developments have been subjected to few regulatory checks. Unplanned settlements have emerged and expanded, with little meaningful restriction. House construction in the urban areas has rarely been subjected to the standards that the sub-national governments have set out in their by-laws. In Lusaka, for example, a number of structures have been constructed that obviously (even for a 'layperson') do not meet the most basic design and construction standards. The Simoson Building in Lusaka is, perhaps, a celebrated example of a structure that should not have been approved in the first place, considering both its design and construction standards are evidently a risk to human habitation. The building does demonstrate the general apathy Lusaka's City Fathers possess in the area of controlling standards. This structure and many other similar buildings in the City have reduced the distinction between planned and unplanned settlements, a phenomenon that should be of deep concern to both councils and central government.

With regard to water supply services, this Report has revealed that the sub-national governments' management and decision-making are quite weak (refer to Chapters Five and Six). Tariffs are still subject to central government approval; major infrastructure development in the sector is still being centrally managed, even that which takes place within council jurisdictions; the initiative to form water companies is still being managed centrally, with limited input from the concerned sub-national governments; and legislation on water standards remains unimplemented due to a host of problems, ranging from weak management capacities (particularly in the technical sphere) to resource constraints under conditions where statutory government transfers to councils have been limited and unpredictable. These factors have had an adverse effect on sub-national governments' management and decision-making capabilities and have led to poor water services delivery.

### **7.8 Conclusions**

This Chapter has revealed a number of realities with respect to the institutional capacity of councils in Zambia to discharge their mandated ISP responsibilities. Firstly, many constraints continue to cripple the provision of services in the average council. These include an inadequate supply of trained and experienced personnel stemming from the inability of councils to attract and retain qualified human resources; the absence of competition in ISP; the lack of financial and administrative autonomy by councils; and the absence of commercial principles in ISP under conditions where there is a weak link between plans and budgets. Proper financial controls and management practices are almost alien to most councils. Moreover, councils' financial viability is worsened by their failure to determine cost-recovery rates and apply these to the users of their services.

The typical council in Zambia also demonstrates inadequate access to private finance and utility suppliers; inappropriate management systems and principles of delivery; a lack of performance measurement criteria; the absence of decentralisation policy; and weak ministerial co-ordination in ISP. Because of the poor quality of their human resources and a lack of incentives, the sub-national governments have very limited capacity to routinely examine innovative approaches to the improvement of their management. The councils' chief officers, who are mandated to deliver infrastructure services, are not given sufficient financial and managerial autonomy by central government authorities and the councillors. The institutional environment leaves little latitude for council managers to play an innovative role in ISP.

The above findings suggest the existence of a very weak institutional environment for the delivery of ISP by sub-national governments. This has contributed significantly to the evident failure by the councils' management to plan and utilise the limited resources (both human and financial) at their disposal in a prudent manner. The absence of any initiatives towards management reforms in councils is a further testimony of the institutional weaknesses of councils in service provision.

## CHAPTER EIGHT

### CONCLUSIONS

#### **8.1 *Introductory Remarks***

This research into sub-national government finance in Zambia has outlined a number of issues in the present system of finance in relationship to infrastructure and service provision, both at the aggregate level and within the sample local authorities. This Chapter contains the major findings and tentative conclusions of this Study, succeeded by a number of recommendations concerning methods of addressing these problems in the future.

The policy of the Zambian government takes its point of departure in the Local Government Act of 1991 (as amended in 1992 and 1995). According to provisions of the Act, many of the elements that constitute the autonomy of local self-government have been in place for several years. The Public Sector Reform Programme (PSRP) followed the Local Government Act and included a component on decentralisation and the strengthening of local government. The 1996 Constitution contains key terms such as the values of democracy, transparency and accountability. It also refers to decentralisation.

Today, the councils of the sub-national governments are empowered by law to perform a significant number of functions and responsibilities for water supply, sewerage, solid waste management, health facilities, roads, street lighting, drainage, fire cover, housing facilities, land development, environmental health facilities and markets. Educational facilities are controlled by the central government alone.

The overall conclusion drawn from the research is that the provision of infrastructure and services at the local government level is far below the needs of the population. Approximately 50-60% of these needs are being addressed in the main areas of health, water supply, sewerage, solid waste collection, roads, etc.).

There are two major, and mutually reinforcing, sets of constraints on infrastructure and service provision (ISP) by sub-national governments and on their efforts to develop a strong and sustainable system of fiscal decentralisation. Firstly, a coherent enabling environment is generally lacking in Zambia, particularly within the field of local government finance. The unstable and unpredictable system of state transfers and the central government control of the budget process, the revenue base and tax/fee rates are clear examples of this. Secondly, the lack of administrative and technical capacity within the sub-national governments has had a negative effect on the opportunity to develop a stable process of fiscal decentralisation in the short-term future. There is, however, a great potential for increasing the sub-national governments' revenues, even without changing the tax rates and user fee levels now in

place. Reform of the system of taxation, by reducing the control of the central government, and a reform of the system of state transfers are two of the most urgent issues to address in support of fiscal decentralisation and strengthening sub-national government finance. There are also steps that can be taken, as outlined below, to improve the financial, regulatory and institutional framework for sub-national government operations.

The major feature of development in the late 1980's and the 1990's has been the transfer of responsibilities from the central government to the sub-national governments. This transfer has taken place without a parallel transfer of financial means or improved revenue generating activities in the form of local taxes, user fees and charges, shared taxes and transfers from the central government. This development has caused a severe reduction in the level of infrastructure and service provided to the citizens.

In general, most of the findings at the aggregate level are supported by data from all the six sample local authorities. Many of the problems and challenges for sub-national governments are the same, despite differences in character and degrees of severity between the various types of sub-national governments.

The findings below are organised in accordance with the chapters in the main report.

## ***8.2 The Economic and Financial Context of Zambia***

Zambia has gone through a series of significant policy shifts since it attained political independence in 1964. At independence, the country's mineral resources were well developed, and its expenditure levels reflected steady and large export earnings, primarily from copper. The country's economic performance declined after 1974, largely due to the fall in world copper prices. Between 1974 and 1988, for example, Zambia's external receipts from metal products declined by 23%. This condition compromised the needed re-investment in the mining industry and other sectors of the economy.

Thus, the major challenge of the Zambian economy consists of a deterioration of the overall economy caused by the decline in the terms of external trade in which export prices have fallen greatly in comparison with import prices. This development has imposed very severe constraints on the Zambian government with respect to its potential to change the path of development, constraints further influenced by the burden of the country's huge international debt. This external financial condition has severely restricted the central government's ability to manoeuvre, improve ISP and provide support for the sub-national governments.

In the 1990s, the economy continued to suffer from high inflation, huge budget deficits and a distorted price structure. By 1992, the inflation growth rate reached 191%, as opposed to 111% the previous year. This rate was reduced in 1993, when the recorded inflation rate was 138.3% (still high). Largely due to the government's adherence to

the cash budget, the average inflation in 1996 dropped to 35.1%, and, during the same year, the government managed to eliminate the budget deficit. Inflation declined further to 18.6 in 1997. However, provisional figures for 1998 are approximately 27%, an indication of a worsening situation. The economy continues to suffer from high inflation, huge budget deficits and a distorted price structure. The generally weak economic climate of the country has had negative consequences for the functioning of the central and sub-national governments and their ability to provide infrastructure and service.

The deterioration in infrastructure provision in Zambia has affected mostly the poor, which represent about 70% of the country's population. Those living in rural areas and the unplanned urban settlements are particularly affected.

In comparison with other countries, the share of household expenditures allocated to infrastructure and services in Zambia is very low. This should be seen in relation to a slight decrease in the cross-national income per capita in constant prices. However, considering the importance of water supply, sewerage and solid waste management - and their influence on living conditions (especially in relation to health and the proper development of children) - this constitutes an insufficient allocation of household resources devoted to the payment for these basic services.

### **8.3 The Context of the Public Administration (Chapter 3)**

#### **8.3.1 Main Findings and Conclusions**

##### ***Government Policy and Objectives on Decentralisation:***

Part III of the 1991 Local Government Act lays down the procedures for the constitution of a council and the rules governing the election of councillors, mayor and deputy mayor. The most significant change (from the 1980 Local Government Act) was the removal of centralised political control over the appointment of councillors and civic leaders and the removal of direct civic control over the day-to-day business of the councillors. In terms of decision-making, mayors do not have executive powers, not even delegated ones. Thus, all council decisions have to be taken by the whole council unless a committee has been delegated such authority. The chief executive of a council is the town clerk/council secretary who is a full time employee of the council.

Among the major, tangible reforms made by the government in the area of local government improvement was the Public Service Reform Programme (PSRP) in 1993. The PSRP is principally focused on the public sector, including sub-national governments, *vis-à-vis* decentralisation. The PSRP objectives include the improvement of government capacity to analyse/implement national policies and perform its appropriate functions; effective management of public expenditure to meet fiscal stabilisation objectives; and a wish to make the public service more efficient and responsive to the needs of the people.

The aim of the central government policy for sub-national governments has been to strengthen *decentralisation* and deconcentration regarding the sub-national governments and the provinces, respectively, as expressed in the PSRP (refer to section 3.3). This programme is not fully implemented. In addition, a Decentralisation Policy document has yet to reach the Cabinet for consideration/approval, a phenomenon that has compromised the clarity of division of responsibility among the major actors in infrastructure and service provision (ISP).

***Main Findings from the Study:***

Presently, the political system in Zambia is composed of the central and local government. The central government consists of government ministries, including the Ministry of Local Government and Housing which provides central government oversight of local level administration. There are three structures in the government system relevant to the policy of decentralisation. There is the central government at the top. Below this is a two-facet local level parallel structure: (a) the provincial and district administration, on the one hand, and (b) the sub-national governments (or councils), on the other.

The deconcentrated structure includes around 9 provinces. In the decentralised structure, there are 72 sub-national governments (SNGs) in Zambia<sup>96</sup>, of which four are city councils (Lusaka, Ndola, Kitwe and Livingstone). Despite the existence of provinces, councils are the tier of local self-government since the former are merely administrative structures. Besides these main lines of governments, there are three levels of co-ordination committees comprising the National Development Co-ordination Committees, Provincial Development Co-ordination Committees and District Development Committees (DDC). These committees were established to co-ordinate the activities of the various types of authorities, but their roles have been rather limited and weak at the local level.

Councillors (who constitute councils) are elected for a three-year period<sup>97</sup>. Local members of Parliament and two representatives of traditional leaders (chiefs) are usually ex officio members of an individual council. Councillors then elect a mayor (for city councils) or council chairman (for lower-level councils) from amongst themselves who then occupy office for a period of one year, renewable only once.

The study has shown a generally contentious relationship between the councillors and the chief officers in the sub-national governments.

In terms of decision-making, mayors do not have executive powers, not even delegated ones. It is noteworthy that the limited powers of the mayors restrict their opportunity to play strategic roles in the management of the councils, a phenomenon that has resulted in a considerable amount of conflict between “energetic” mayors and the councillors.

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<sup>96</sup> They were 61 for a long time until recently, when the number was increased.

<sup>97</sup> The last election was in December 1998, after a three-year delay.

Presently, the decision-making body of the council is the complete council, which consists of all the elected ward councillors in the town and 6 co-opted councillors who have been chosen to serve as representatives of the business community. These include local area members of parliament.

The Study findings show that the previous strategies still have to be fully implemented and have largely prove the need for a comprehensive and clear new decentralisation strategy.

The functions of the sub-national governments have been analysed, and the major findings are that several key factors impede service provision and development of infrastructure: unclear division of tasks between the different government levels, unclear co-ordination between institutions at the same level and overlapping responsibilities. The parallel institutional structure (decentralised and deconcentrated) and direct donor involvement at the local government level without involvement of local governments has further worsened this situation.

### 8.3.2 Recommendations on Policy and Structure (Chapter 3)<sup>98</sup>

#### Major Recommendations:

- 3.1 Short term (ST): The development and adoption by Cabinet of a *decentralisation policy* is an important *first step*, but there is need on the part of central government to recognise that much more needs to be done before the policy can be implemented.
- 3.2 Short term (ST): The *second step* is the development of an *implementation plan* that should cater for how all the above necessary steps should be handled, including estimating financial, physical and human resource requirements for implementation. It is important for the government, in implementing a policy as far reaching as decentralisation, to have a comprehensive implementation plan. The implementation plan should show the approach to implementation; the scope of the exercise; the phases in implementation, including functional geographical phases; and whether or not there should be pilot phases. As a *third step*, an *action plan* for the practical implementation should be elaborated, including concrete measures to be taken. Establishment of a Decentralisation Secretariat to co-ordinate this work should be considered.
- 3.3 Short term/medium term (ST/MT): There is a need to strengthen sub-national governments themselves in order for them to be able to carry out the functions decentralised to them. The *institutional strengthening capacity* effort ought to be directed at the actual institutions of sub-national governments and to sub-district development areas.

<sup>98</sup> All activities should be addressed more or less immediately, but "short term" means that the development is expected to be carried out within the first year. Medium term: The activity may be started immediately, but will last 1-3 years before major results appear. Long term: The activity may be started immediately, but will last more than 3 years. This terminology will be used throughout the chapter unless otherwise stated.

### **Other Recommendations:**

- ST/MT: The roles of the Provincial Development Co-ordination Committees and the District Development Co-ordination Committees should be considered in order to strengthen the co-ordination role of sub-national governments
- ST/MT: Overlapping functions between the different levels of government and within the central government level should be streamlined. Development of parallel structures in institutions with the same functions and tasks should be avoided in the future
- ST: The relationship between the mayor and the councils should be considered in order to clear the role of the two and to strengthen efficiency and democratic control at the same time

## **8.4 The Finances of the Public Sector (Chapter 4)**

### **8.4.1 Main Findings and Conclusions**

#### ***Objectives of the Central Government:***

It is the central government's stated policy that the sub-national governments should be largely self-financing, based on the revenue sources outlined in the Local Government Act, and that the payment principles for public services should be based on the principle of cost recovery.

#### ***Findings from the Study:***

Since 1973, there has been a continued decline in the local authorities' service delivery abilities. Factors responsible for this decline are both external and internal to the sub-national governments. Macroeconomic performance, fiscal policy management and public sector financial supervision and approval mechanisms can be identified as the most important. Chapter 4 analyses the major financial development at the sub-national level within the most recent years (1994-1998).

The following main findings resulted from the analysis:

- Major indicators of the degree of decentralisation are (1) the local government expenditure portion of the GDP and (2) the local government share of the total public expenses (see Chapter 2). Both indicators have shown that the sub-national governments in Zambia constitute a very small and declining part. In 1997, the sub-national governments' revenues only constituted 0.5% and 4.6% of the GDP and of the public revenues, respectively (a decrease from 0.9% and 4.8%, respectively, in 1994). This is a very low share compared to percentages in other countries (see Chapter 2).
- The local government expenses and revenues have increased in nominal values but decreased in real value during the period 1994 to 1998.

- A comparison of the sub-national revenues and expenditures in the sample local authorities has shown that although the revenues often surpass the expenditures, the opposite is true when the outstanding debt to creditors (e.g. different kinds of service and infrastructure providers) is taken into consideration. The financial situation is very different from one council to another, but the general picture shows a sector with severe financial problems.
- The analysis of expenditure showed that the recurrent expenditure constitutes more than 93% of the total sub-national expenditure in the study period, whereas the capital expenditure constitutes the last and smallest part. Only a few local governments have real capital investments, and many local governments have no capital investments at all. Some years ago, capital investment in the housing sector was rather significant, but this has diminished in the last few years. Today, only very few and sporadic capital investments are taking place.
- Of the current expenditure, the largest share, 60 percent, goes to cover wages. This share has been quite stable during the study period but with a tendency to increase.
- An analysis of the expenditure throughout the sector areas revealed that general public services (of which the administration constitutes by far the biggest part) is the most expenditure-heavy sector of the sub-national governments, followed by the health care and housing sectors. Only a small part of the expenditure goes to non-wage elements within areas such as education, economic services and community amenities. In most of the areas, the non-wage portion has decreased.
- For a short period after the sale of rental houses in 1996-98, expenditure levels increased, but this was not a stable income. The future revenues from rent will be significantly lower, and, consequently, the potential for expenditure becomes lower. This has been the experience at the aggregate level, as well as for all the sample local authorities.
- The sub-national revenues increased in nominal values but decreased in real values by an average of 9.4% from 1994 to 1997. The study of the sample local authorities showed that development in revenues varied greatly from year to year and from council to council, especially during periods of property sales, cf. below. Some of the sample local authorities have succeeded in increasing their revenues from other sources, as well.
- The analysis of the composition of revenues showed that user charges and fees were, by far, the most important revenue source (averaging approx. 40% in 1994-1997) followed by own taxes and other revenues. The own taxes decreased from 1994 to 1997, but showed a slight increase from 1996 to 1997. Transfers from central government are insignificant and constitute less than 7% of the local government revenues in the whole period. The transfers decreased during the whole period from approx. 7% in 1994 to approx. 3% of the total revenues in 1997. The decrease in transfers and tax revenue has forced sub-national governments to

find new sources of income. Shared taxes are non-existent in the sub-national system in Zambia.

- A breakdown of the different types of tax shows that property tax is the most important type of local government tax, followed by tax on trade and liquor and personal levy. For the sample local authorities, personal levy was more important than the trade and liquor tax. The composition of taxes varies greatly from council to council, as exemplified by the differences between Lusaka (heavily dependent on property tax) and Petauke (high taxation on trade and liquor).
- Most of the taxes have declined in real value, especially property tax. Some of the reasons for this are central government forced decrease in rates, local resistance against increases, the new Law on property tax from 1997 with exemptions on many types of property, outdated evaluation and forced sale of property. The personal levy tax, with its strict maximum and minimum levels, has shown its limitations as a local government revenue source.
- User charges constituted a large part (30-40%) of the sub-national revenue and functioned as the last resort when all other revenues diminished. The major part of the revenue from this source comes from charges on water supply and rent from housing. The rent from housing has decreased in the last years due to the sale of houses. The study of the sample showed that the revenue from user charges varied from 28% in Chibombo to 55% in Lusaka. User charges are more important for larger local authorities, but the revenues vary greatly from year to year.
- The transfers from central to local governments constitute a small unstable part of local government revenue (averaging less than 3% in 1997). In international comparison, this share is very low (refer to Chapter 2). No formula for the distribution of these grants exists, but from time to time most sub-national governments receive small grants from the central government, both in the form of general and special grants. Most of the grants are used on wages. In the present system, only a very small portion is capital grants. Compared to the period before (1994) and in contrast with other countries around the world, transfers from central government are quite insignificant. Grants to the sample local authorities increased from 1996 to 1997, but were unstable and unreliable during this period.
- Local government long- and short-term borrowing is almost non-existent. Very few local governments have received any loans, and the revenue from borrowing is almost negligible due to lack of creditworthiness. Only a few loans (short-term) in connection with larger constructions have been issued. No system of special credit institutions (beside the normal market) exists for sub-national governments.
- The analysis of the revenue potential, based on the findings in the six sample local authorities, showed that the potential increase in the revenue (with the same tax base and rate as today) was considerable: 50% in 1997, based on results from four sample SNGs. The potential increased year after year, as tax collection efficiency decreased from K2.0 million in 1994 to K12.7 million in 1997 (in four sample

SNGs). This may be compared to the total collected SNG tax revenue in all SNGs (1996: K million 7.682, i.e. per capita in 1996: K 833).

With a reference point in the data analysis in Chapter 4, a number of *problems* in the field of local government finance have been identified. Some of the major problems are listed below:

- Many tasks have been transferred to the sub-national governments. However, the sub-national share of public expenditure, public revenues and the GDP is very small, and it is decreasing.
- The major share of expenses is used on non-productive areas of service provision and infrastructure such as general administration.
- Within the different sectors, the wages expenditure constitutes too large a share (more than 60%). This makes service provision very difficult, as there is a severe lack of materials, investments, transport, goods, etc.
- The capital expenditure constitutes a very small part of the total sub-national expenditure, and the capital investments are non-stable, not distributed in a balanced way throughout the sub-national governments, sporadic and without the involvement of the sub-national governments in decision-making. This hampers the relationship between investment and maintenance and reduces the responsibility for the improvement of the area.
- The revenues concentrate too heavily on two types of sources: property tax and user charges.
- Shared taxes or general grants are almost non-existent. There is no parallel transfer of funding when new tasks are transferred to local governments. This reduces service provision and the implementation of needed legislation.
- The few transfers from central government that exist are non-stable, not timely and characterised by a sporadic principle for distribution amongst the sub-national governments
- A system of local government borrowing is almost non-existent. The few investments that are made take place without the involvement of the sub-national governments
- The tax assessment and collection is far from efficient, and the analysis has proved a huge potential for improvement in this area. Up to 50 % of the potential SNG taxes are uncollected.
- The assignment of some taxes and the administration of these to sub-national governments combined with the existence of the tight control of the tax rate by the central government seems to reduce the incentive to strengthen the tax yield.

- There is a severe lack of proper accounting and financial management at the sub-national level, e.g. accountancy, cash flow management, etc.
- External donors, operating through central government, mainly undertake the financing of infrastructure projects, while local financing plays an insignificant role. Overall, financing of infrastructure remains relatively low.
- The implementation of projects in the sub-national governments' jurisdictions is largely undertaken by the central government, with minimal, if any, involvement of councils. This practise has far reaching implications for the autonomy of the councils.
- Finally, the local government creditworthiness is almost non-existent due to the above-mentioned problems. The chances for a greater involvement of private investors in infrastructure and service provision are limited in the short-term.

The main conclusion is that there is still a long way to go in reforming the existing system of sub-national finance in Zambia, in terms of the design and composition of the SNG revenues and in terms of the structuring of expenditures to address stated objectives. Compared to other countries in the region, the SNGs in Zambia are very much more dependent on user charges and property taxes and much less dependent on grants and shared taxes. Such a scheme is theoretically appropriate. However, in the case of the present design of the revenue generating system in Zambia, a number of remedies are warranted.

#### 8.4.2 Recommendations on Sub-National Government Finance (Chapter 4)

##### Major recommendations:

##### 4.1

ST: Any transfer of new responsibilities should be accompanied by an allocation of the financial resources required for their fulfilment. ST/MT: The system of local government finance should undergo a comprehensive reform process in order to create a better balance between the assigned tasks and their finance. The present system seems to be dependent on quite a few own local taxes and user charges. The system of local government finance should be reformed in order to develop a more *appropriate composition of revenue*, i.e. distribution of the main types of revenues: Own taxes, shared taxes, transfers, loans and user charges and fees. The future resources should be of a regular and recurring nature so as to permit uninterrupted public services and adequate financial planning.

##### 4.2

ST: The right of sub-national governments to *participate*, in an appropriate manner, in establishing the rules governing the general apportionment of redistributed resources should be expressly recognised. The *information flow* on local government finance between the levels should be strengthened. MT: The possibilities of the establishment of a formal budget co-operation (or grant commission) forum, where the central and lo-

	cal governments negotiate the future economy and seek consensus, should be investigated
4.3	<u>ST/MT</u> : There is an evident need for a full-scale reform of the municipalities' entire <i>financial budgeting and accounting system</i> and procedures to bring them up to modern standards and to achieve effective internal financial control and accountability. <u>ST</u> : The reform must start with a review of the governing financial regulations and then proceed to cover the accounting framework, raising and recording of income, authorisation of expenditure, payment systems, budgetary procedures and formats, financial reporting procedures and formats, formats of final accounts, a framework for the adoption of medium-term financial planning, and computerisation principles and recommended configurations. Rather than a rigid prescription of details, the reform should establish principles, accompanied by guidance, giving models for municipalities to adapt to their particular needs. <u>MT</u> : Additionally, a budgeting module should be developed to allow for the rapid assembly of information, scenario testing and expeditious production of budget documents.
4.4	There is an urgent need to rationalise the <i>central government transfers</i> to SNGs in a way that would reflect a coherent development financing strategy; embody clear and open eligibility criteria distributed timely and with full information; establish standardised terms for central government loans, designed so as to, in the longer term, lead municipalities back to borrowing in the marketplace; and employ standard fund channelling systems. The reform should be phased, i.e.: <u>ST</u> : The size of the required state grants should be explored beforehand by a follow-up on this analysis. <u>ST</u> : The principles and the mechanism for the transfers should be developed. <u>MT</u> : The Ministry of Finance issues clear guidelines on the disbursement of funds to the districts, in conjunction with the Ministry of Local Government and Housing, to facilitate the decentralisation process. The provision of block grants, which are not earmarked for the financing of specific projects or services, should be promoted. The provision of grants should not justify any undue intervention in the policies pursued by local authorities within their own jurisdiction. <u>LT</u> : In the long term, the introduction of new SNG taxes and the strengthening of the local revenue base may lead to a reduction of the state transfers/change in revenue composition
4.5	<u>ST/MT</u> : The effectiveness and <i>efficiency of tax collection, user-fees and charges</i> should be enhanced through streamlined procedures; the establishment of billing systems and systems for coping with defaulting clients; and the adaptation of levels of services to the client's ability and willingness to pay. <u>ST</u> : The large revenue potential (without alteration in the tax and fee rates and tax base) identified in the sub-national governments should be much more effectively used.
4.6	<u>ST/MT</u> : Mobilisation of financial resources at the local level should be encouraged and adequately developed and strengthened by the government by involving communities, including new types of local government revenues in order to enhance the sub-national government revenue base, e.g. a sub-national government share of the VAT.
4.7	<u>MT</u> : A larger share of the total expenditure should be reallocated from general admini-

station toward more customer-oriented service provision and infrastructure sector areas.

### Other Recommendations:

#### *Sub-National Revenue:*

- **MT:** Taxes which sub-national governments should be *entitled to levy*, or of which they received a guaranteed share, should be of a sufficiently general, buoyant and flexible nature to enable them to keep pace with their responsibilities.
- **ST:** It is recommended that the present *Rating Act, 1997* be investigated in order to review the appropriateness of the exemptions, rates, organisation of the collection and the competence in setting of the rates, etc. This analysis should result in a reduction or abolishment of the central government control over the rate of property tax, e.g. by allowing the SNGs to regulate the property tax within certain ceilings. The power of discretion by the central government should be reduced.
- **ST:** The central government should encourage the *updating of the tax base for property taxation*, possibly by financial incentives for carrying through a new and actual valuation in order to promote the justifiability of tax burdens among citizens.
- **ST:** Reform of the personal levy system should be initiated in order to make it more related to the income of the persons and to increase the yield. One possibility is to develop a so-called piggybacking system, whereby the central and local governments share the revenue from the same tax base. The present ceiling should be addressed and abolishment considered or at least follow the development in nominal salaries.
- **MT:** A closer relationship should be developed between the use of the services (quantity consumed) and the level of the user charges, supplemented by support schemes for the poorest people. Methods for calculation of appropriate user charges and fees should be developed in order to support the sub-national governments in their administration.
- **MT:** *Shared finance/cost sharing* should be introduced in areas where the local governments provide *services as agents* for the central governments and where the central government wants to have a very uniform service level, e.g. appropriate within some parts of the social welfare system.
- **ST-LT:** The environment influencing *local government borrowing* should be addressed. Local government's large-scale access to the private capital market is not realistic in the short term and probably not in the medium term. **ST:** Therefore, the first step should be to address the above-mentioned revenue generating activities in order to develop a more enabling environment for the local authorities,

including more stable revenue sources, guarantees for re-payment of loans, etc. MT: In the medium term, various semi-public credit institutions or inter-municipal borrowing arrangements may be developed and supported by the central government and by the donor community to address urgent need for investment in infrastructure and service provision until the private capital market is fully developed. All capital funding should be devolved to the local governments in a phased manner that allows for capacity building at the district level to plan and manage resources effectively and to assure responsibility. LT: Access to the private capital market should be enhanced.

- MT: As the wage bill constitutes approx. 60-75% of the total actual expenditure, it is envisaged that if the central government and the donor community can *assist in financing with a severance package* (retirement of excess staff), the wage bill will decline, thereby releasing financial resources for service delivery.

*Sub-national Expenditure:*

- ST: Central government, to a greater extent, should *involve sub-national governments* in major decisions on investment in infrastructure within their area. As it is today, it is not appropriate that local authorities should be burdened with the cost of projects agreed on between central government and the donor community.
- ST: Comparison of the *cost of various ways of service provision* should be initiated in order to make provision more efficient in the future.
- ST/MT: A system of *independent audit* of the local government spending and revenue generation should be initiated.

See also Section 6.8 of this report.

## **8.5 Infrastructure and Service Provision – ISP (Chapter 5)**

### **8.5.1 Main Findings and Conclusions**

***Central Government Objectives:***

The central government policy for ISP has been to assign a larger number of functions to the sub-national governments; to involve the private sector in ISP; and to support a stable environment of maintenance and development of ISP, including cost recovery and liberalisation of the tariff setting.

***Main Findings from the Study:***

The major bulk of infrastructure was established in the 1970's. Following the decline of the copper revenue that covered most of the investment in the economy, the maintenance and development of infrastructure has decreased considerably.

The central government and/or the donor communities initiated the insufficient investment that was carried through in recent years. The general pattern for the main sectors of infrastructure is that ISP investments are carried out by organisations others than the sub-national governments. After the establishment of the infrastructure, the running and maintenance is handed over to the sub-national governments. This pattern of development creates severe financial and managerial problems for the sub-national governments and weakens their finances.

It appears, moreover, that investments are undertaken generally with very limited co-ordination with the decisions and priorities of the sub-national councils. Often, sub-national councils suddenly realise that an investment activity is being planned, or even implemented, without their prior notification or co-ordination. One of the major reasons for this pattern is the position of the central government ministries and the fact that the donor community has few direct connections and relations with the sub-national governments. The Ministry of Finance is responsible for negotiation, allocation and priority setting of the financial means generated by the donor community, and the involvement of the sub-national governments is weak. This is to be considered as a potential factor affecting the intentions and prospects of sub-national governments in respect to good governance from a holistic perspective.

The issue of the lack of co-ordination or involvement of the sub national governments in relation to the location, timing and priority of different types of infrastructure should be viewed in terms of the magnitude of the investment in infrastructure activities carried out and influenced by the donor community. An estimation, established by the research and based on the UNDP report on development co-operation in Zambia (1995), showed that the magnitude of the infrastructure-related disbursements of the donor community is ten times as large as the recurrent expenditure related to infrastructure and service provision by the sub-national governments. This should been seen in the light of the negligible sub-national investments in infrastructure and service provision.

Another important aspect of the distribution of responsibilities for infrastructure and service provision concerns the *mode of decentralisation*. The research has shown that no generally accepted mode of decentralisation for the different types of infrastructure and service provision exists. The Ministries of Health, Local Government and Housing, Public Works, etc. appear to have different views regarding the appropriate ways to decentralise responsibilities to the sub-national governments. During the late 1980's and 1990's, moreover, there appeared to be an orientation more to deconcentration of responsibilities and operations (central government institutions at local level) and, to a lesser degree, to actual decentralisation of responsibilities followed by a finance-generating mechanism for revenues.

A steady loss of sources of *local government finance* has also had far-reaching implications for sub-national government capacity in ISP. These involve cost-recovery (e.g. the introduction of the Rating Act in 1997); the recognition of the full recovery of service costs from all but the poorest consumer groups; the land value; and the government decision in 1996 to order sub-national governments to sell council houses at a low price.

Besides these factors, a number of others have contributed to the slow pace of ISP and its maintenance. These include inadequate financial resources; the lack of a clear policy on infrastructure development, particularly with respect to the interface between central and sub-national governments, on the one hand, and the public versus the private sector, on the other; the lack of a comprehensive development and maintenance strategy; inadequate technical expertise needed to fully utilise and maintain existing equipment; the lack of a placement programme for tools, equipment, plant and machinery; and a rise in the rate of vandalism of public property, owing to high levels of poverty in communities and attitudinal problems.

The role of the *private sector* in ISP remains marginal, due to the problems in cost recovery and organisation within the area. A number of councils have formed, or are now in the process of forming, utility companies that operate on commercial principles. For the two that are presently in existence in Lusaka and Chipata, considerable capacity has yet to be developed in the areas of, inter alia, cost recovery and meeting community demand for the services offered.

The lack of an enabling environment for the sub-national governments in the field of infrastructure and service provision is fully reflected in the actual performance of the services. The research has not generated a full-scaled view of the total sector of sub-national governments with respect to infrastructure and service provision, but the data and information collected show a rather depressing picture of medium or poor performance.

None of the sample sub-national governments proved able to serve more than 60% of their citizens in important areas such as water supply, solid waste management, health facilities, fire cover, local road network or social services.

The poorest overall performance of the sample sub national governments is related to *solid waste management*, where two of the six councils are able to provide 51-60% coverage, two have a coverage of 41-50% and two have a coverage of less than 40%. This is an inadequate level of performance, as the lack of solid waste management costs the local population dearly and can have severe health implications.

An almost identical poor performance is related to *sewerage*, where the lack of a functioning sewerage system generates very poor living standards, serious health risks and increased levels of child disease. Four out of the six sub-national governments have a sewerage system coverage of 41-50%, and two have a coverage of 51-60%.

With respect to *health facilities*, an almost identical performance pattern is demonstrated. Four out of the six sub-national governments have a local health centre coverage of 41- 50% of the population, and only two have coverage of 51-60%.

Concerning the *road network*, three of the six sample sub-national governments have coverage of 51-60%, and the others provide coverage of 41-50%. The performance of *fire cover* is very poor in metropolitan areas, with coverage of less than 40%. One

sub-national government has coverage of 41-50%, and the remaining sub-national governments have coverage of 51-60%.

Much attention is paid to the *water supply* function. Three of the sample sub-national governments have a population coverage between 51 and 60%, two of the sample sub-national governments have a coverage of 41-50% and one has only a coverage of less than 40%.

In relation to *water supply*, much emphasis has been placed in the research on the different elements that collectively constitute a good water supply framework for the population. Among other things, due to inadequate maintenance and a lack of important spare parts, the actual water production, compared to the design capacity of the water supply system, often has a 60-70% capacity utilisation. Many sub-national governments calculate a loss rate of 30%, but the actual leakage or waste of water can be more than 50%. The absence of measurements and measuring points around the water supply system adds to the problem. Apart from leakage and a lack of spare parts, the water supply system suffers from a shortage of trained and competent personnel; inadequately skilled staffing also is a feature of the technical services of the sub-national governments.

Sub-national councils have funded no major new infrastructure projects in recent years, and even the existing investments continue to suffer from serious preventive maintenance limitations. The infrastructure is in a serious state of disrepair due to the prolonged lack of maintenance and rehabilitation. The biggest challenge in ISP, therefore, seems to lay in the maintenance of what already exists: for example, the need to repair paved roads and water supply systems. Outside the competence of the councils, a number of investments have been undertaken, especially within water supply, but the analysis has shown that these investments are too low to address the existing needs.

Closely connected with the issue of the ISP performance of the sub-national governments is the issue of the population's attitude towards payment for both the primary and the overall provision of infrastructure and services. The overall picture of household expenditure regarding infrastructure and services between 1991 and 1996 shows a decline in the share of expenditure for housing and amenities. From 1991 to 1993, the share of household expenditure allocated to housing fell from 17% to 8% and remained at that low level until 1996. In contrast, the share that was allocated to food increased from 58% to 65%.

In 1996 for all households, the percentage of total expenditure allocated to rent was 2.16%, to water 0.56%, to electricity 1.12% and to household maintenance 0.72%. The expenditure for water payments increased slightly between 1991 and 1996. In urban high cost areas, the share is almost double that of the urban low cost areas, where 0.7% of household expenditure was directed to water payments in 1996.

The conclusion is that a still lower share of the household revenues can be used for payment for infrastructure and service provision.

The questions of *cost recovery*, *tariff policy* and the *affordability and ability to pay* were treated in the analysis. Some of the main findings were:

- Paradoxically, it is mainly poorer consumers who are currently paying their bills, while non-payment is most prevalent amongst the rich and among central government departments and state-owned parastatals. Therefore, it has become difficult for the government to meaningfully champion the need for cost-recovery among ISP providers, let alone advocate the culture of paying for services.
- The general level of default payment is very high (more than 50%). There are many reasons for this: widespread poverty, disconnection of public infrastructure, disagreement with the methods of calculation of the costs and the poor quality of the services.
- The research noted the attitudes of the citizens with respect to their discord or lack of ability and willingness to pay for the basic services. The citizens are only willing to pay more when the services are improved. This attitude combined with the deteriorated economy reduces the possibility of carrying through needed re-investments in the country's infrastructure in the short and medium term.
- With respect to tariff policy, despite the liberalisation in tariff setting, the central government still exercises control over the charge levels that councils may levy through an administrative (as opposed to legislative) obligation to submit their "proposals" to the Minister of Local Government and Housing for consideration/approval. Currently, only nominal fees are charged for water and other infrastructure services, mainly due to political interference in tariff setting. Although some additional autonomy has been granted to the sub-national governments in setting tariffs since the present Local Government Act was adopted, the level has still to be approved by the central government. All the sample local authorities have identified the approval process (often lengthy) as a main constraint in this area.
- There is a clear lack of an enforcement strategy both at the central and local government level. Tariffs tend to be viewed as political tools and adjusted at election times.
- Although there is a general wish to adopt cost-recovery at the central level, there is no clear strategy at the central and local government level regarding the future principles for implementation of cost recovery
- The budgets and the accounts for the key infrastructure areas are at a very poor standard, even in the larger sub-national governments. This is a problem for the implementation of the principle of cost recovery

## 8.5.2 Recommendations on SNG Infrastructure and Service Provision (ISP) (Chapter 5)

### Major recommendations:

5.1 ST/MT: The *division of responsibilities* for infrastructure and service provision among the central and the sub-national governments (SNGs) should be more *clear*, and a co-ordinated approach should be adopted concerning priorities for and allocation of new infrastructure investments, taking into special consideration the preferences of the SNGs with respect to donor contributions to ISP.

5.2 ST: The *individual* SNGs should *duly consider*, through the use of a participatory approach to decision-making, *their citizens' preferences, affordability and willingness to pay* for infrastructure and services provision.

5.3 ST/MT: Both central and local government institutions at all levels should develop and implement comprehensive infrastructure development and maintenance strategies, including a clear policy for tariff setting within the *framework of a cost recovery principle*. The cost recovery approach should address the following elements: 1) the adjustment for inflation effects, 2) the current costs (e.g. for water also covering the necessary purifying chemicals etc., 3) the necessity for preventive maintenance and repair costs and 4) the depreciation costs in order to allow for re-investment. In order to counteract the non-affordability of the full cost-recovery of the poor, systems of fee differentiation or special support to weak income groups should be introduced.

5.4 MT: Infrastructure development *monitoring teams*, comprising stakeholders at various levels, should be established and, where they exist, should be strengthened to monitor developments by providing an adequate administrative and logistical support.

5.5 ST: Ministries of Works and Supply, Transport and Communication and Local Government and Housing should expedite the development of national policy on infrastructure development and maintenance. In this respect, Ministry of Works and Supply and other sector ministries and councils should mount preventive maintenance campaigns to enlighten the public on the need to look after public property.

5.6 ISP concerning the water sector should pay increased attention to the need of the poor, especially in low income urban areas (where less than 59% have access to water) and in rural areas, where there are inadequate numbers of communal taps or bore holes, inadequate reticulation systems and a shortage of spare parts and purification chemicals.

5.7 ISP concerning the *health sector* should be related to the inadequate state of the clinics of the sub-national governments and address especially the poor condition of infrastructure and the lack of available of drugs.

5.8 ISP concerning *sewerage systems and drainage*, which has very severe impact on the health conditions of the urban poor because of lack of quantity (overloading) and quality (leakage) of efficient sewerage, should emphasize systematic inspection and rehabilitation of the sewerage system, especially before the rainy season, where contamination threatens the water sources dramatically.

5.9 ISP concerning *management of solid household waste* should be significantly up-graded and should address the requirement for an increased number of refuse trucks and vehicles, as well as protective clothing, tools and implements

5.10 ISP concerning *road and transport systems* should be more systematically directed towards preventive and current maintenance for high priority roads as well as for local roads

5.11 ST: Sub-national governments *should be more involved in priority setting, decision-making* and management of major infrastructure projects within their areas in order to secure local needs, better maintenance and responsibility for facilities - including a better link between the donors, the ministries and the sub-national governments.

#### **Other recommendations:**

- MT: Projects with the aim to develop better *accounting and budgeting procedures* within the area of major infrastructure and service areas should be addressed.
- ST/MT: A methodology for the calculation of costs, which takes the affordability and the attempt to obtain a higher level of costs recovery into consideration, should be developed.
- MT: *Investment funds* for infrastructure financing, combined with support to strengthen the administrative capacity of the sub-national governments to administer larger infrastructure projects, should be supported.

### **8.6 The Regulatory Framework (Chapter 6)**

#### **8.6.1 Main Findings and Conclusions**

##### ***Central Government Objectives:***

From 1972 until 1991, local governments became increasingly dominated by the interest of the ruling party, UNIP, which tightly controlled their organisational and financial capacity.

The *1991 Local Government Act* dramatically changed the legal and organisational structure and decision-making procedures at the local level. The central government policy for the establishment of an enabling regulatory framework was laid down in the Local Government Act, based on previous experiences.

By an amendment to the 1991 Act, the sub-national governments were empowered in 1992 to mobilise resources without seeking ministerial approval. In addition, a 1995 amendment to the Local Government Act permitted local authorities to appoint and discipline personnel without reference to the minister. By the amendment, the local government service commission was a body, which let to facilitate decision-making at the local level with respect to discipline and appeal cases. Finally, a number of initiatives have been undertaken in order to secure a more efficient regulatory framework regarding land in order to increase productivity, especially in agriculture.

The 1991 Local Government Act established the responsibilities and functions of the sub-national governments in the field of infrastructure and service provision. The provisions, however, do not represent a full-scale local self-government structure. With this Act, the Ministry of Local Government and Housing (MLGH) remained responsible for, inter alia, the smooth functioning of councils, the approval of sub-national government budgets and co-ordination of local government development planning. In addition, as a part of the ongoing reform of the public sector, the Ministry has established a Department of Housing and Infrastructure Services, which is responsible for the national housing policy, water, sewerage, and road-rehabilitation programmes throughout the country.

***Main Findings from the Study (cf. Chapter 6):***

The present laws and related regulations regarding local government are not considered by the sample local authorities to be very severe constraints on their operations compared to the finance-oriented constraints described in Chapter 4. Nevertheless, a number of significant constraints in the present legislation, and not least in the present practise in the relationship between the central and local governments, have been identified.

***Decentralisation Policy:***

The present overall public government policy, although not clearly formulated, seems to decentralise the functions of government to lower-level operators and sub-national authorities. What has not been achieved is a *clear decentralisation* policy that specifically defines, in operational terms, the extent and limits of the actions by councils. Consequently, decentralisation and modes of decentralisation seem to mean different things to different government ministries and to different other providers of infrastructure services. It should be emphasised that other countries have found great value in having a clearly defined strategy for decentralisation.

The draft decentralisation policy documents have been under development for the past 2-3 years, but at the time this research was carried out, they were still not adopted by the government cabinet.

***Power to Intervene:***

The most important deviation from the development of local self-governance represents the power of the Ministry of Local Government and Housing to *intervene* into the operations of the sub-national councils. This power consists, inter alia, of interceding “whenever by reasonable refusal failure or inability of a council adequately to discharge all or any of its functions .”. In these cases, the minister may appoint - by statutory order – a public officer to be the local government administrator for that council and to suspend all councillors from performing their function as councillors. The minister may also empower the local government administrator to discharge all the functions of the council and, after holding an inquiry, dissolve the council after receiving prior approval of the president and direct the holding of the elections within 90 days from the date of dissolution. This power has been used on several occasions in recent years. Many councils and local government administrations consider this an important avenue of decision-making power of the central government.

### *Influence on Sub-National Decision-Making*

Moreover, the Ministry of Local Government and Housing may considerably influence the decision-making of the sub-national governments. This influence consists of requests for prior approval of sub-national governments' by-laws and in requests to forward applications for prior approval, etc. This power is used by the central government in such a way that it may impugn the reputation of the sub-national councils. Often the process of central government approval of proposals for by-laws or amendments to existing by-laws is very time consuming and requires a great effort from the sub-national governments.

The ways and means by which the central government influences the decision-making and administration of the sub-national governments are not solely regulated by the Local Government Act. Several pieces of special legislation, for different functional areas of the sub-national governments' responsibilities, empower the relevant line ministry to involve itself in the process with detailed regulation (e.g. the building code and regulations pertaining to environment protection, water supply and health facilities). Moreover, there are different modes of interference from central government line ministers. In conclusion, there is an urgent need for a clear decentralisation policy that should especially define, in operational terms, the extent and limits of action by the councils.

Closely related to these issues is the need for clarification in the regulatory framework. Areas that are currently unclear include regulations regarding water supply and water quality, particularly those related to effluent and discharge from latrines and abstraction regulations. The lack of a regulatory framework is closely linked to problems of departmental and ministerial co-ordination in infrastructure and service provision. A particularly complicated area lacking a regulatory framework is the water supply section.

### *Regulatory Framework within the field of Local Government Finance:*

Within the field of *sub-national finance*, the Study has identified a number of constraints at both the central and sub-national government levels:

- Central government involves itself in detail in the approval of council budgets, even in areas where existing legislation provides otherwise. All the six sub-national councillors reported that they required ministerial approval for all major financial decisions taken by the councils, especially the setting of budgets. After preparation, local government budgets are sent to the Ministry of Local Government and Housing for approval, and this is quite often a very time-consuming process. Budget approval is often delayed by up to a year or more. The approval does not solely concern matters of principle, such as the level of the charged rates or use of charges. Quite often, the Ministry influences the budget by changing specific components: for example, the rates to be paid by specific property owners. A major area of involvement concerns the budget accounting and auditing processes. There are no clear rules for the review of budgets and accounts by central ministries.

- The Ministry of Local Government and Housing provides external auditing for local councils and issues financial and service regulations to guide local authorities in the management of their financial affairs. Despite these regulations, there are presently many serious defects in the sub-national authorities' budgeting, and there is no clear link between the level and extent of infrastructure and service provision and the budget process.
- Preparation of council budget documents is usually a lengthy process (first and foremost involving the finance departments) and should be finalised before the end of the financial year. The drafts are submitted directly to the Finance and General Purposes Committee, with little prior consultation with mayors, chairmen, other committees, etc. There are a number of summaries followed by many pages of details included in the accounting format. Not even the summaries are of any real use for informed debate on resources allocation, and they are written in such a way that it is difficult to interpret the information.
- In general, there is an absence of councillors in the budget procedure. Notwithstanding the dominance of the finance departments in budget preparations, responsible officials mostly show little awareness of the expenditure needs of the services for which they are budgeting and are, in general, unable to quote basic operation statistics such as staff numbers, unit costs and client population served. In the sample councils, internal audit units are often understaffed, and they use much of their time on routine checking of transactions. These units pay very little attention to malpractice, administrative inefficiency and decision-making.
- The power of the central government to approve rates is a problem for the councils. This area is strongly regulated by the central government.
- The central government has fixed personal levy rates at a very low level that is not adjusted to inflation.
- The sub-national governments have very little involvement in the decision-making on capital investments in their local areas. Most capital investments are made in agreements between the central governments and the donors without (or with little) involvement of the sub-national councils.
- Forced sale of sub-national assets at artificially low prices has been a problem. A clear example is the Government's Circular No. 2 of May 1996, instructing all councils to sell all their housing stock.
- The Rating Act from 1997 reduced the sub-national revenues to a considerable degree by the adoption of a number of exemptions from property taxes.
- Central government pays grants (instead of property tax) on central government buildings, based on their own value estimates. This payment is very low (compared to a real property tax), and the grants have been reduced year by year.
- The central government controls user fee charges and rates by specific actions, despite the fact that the law stipulates that this is a sub-national government task. The other side of this problem is that councillors may be reluctant to increase the rates and thus lose their popularity. In addition, there seems to be little understanding on the proper sustainability of the revenues, as compared with the desperate need for the maintenance of infrastructure. Notwithstanding the reluctance to recover current expenditure costs, central government is often opposed to any rate and user charge increase proposals and, consequently, reacts by simply reducing rates and user charges.

Despite these constraints, the Act of 1991(92) devolved more power to sub-national governments in terms of spending power - the prioritising of current expenditure (although sub-national governments have no influence on salary levels) - and in terms of increasing revenues, especially user charges and fees. The conclusion from the research is that these possibilities, in practise, have not been able to counterbalance the reduction of state grants and other revenues sources (see Chapter 4).

*Transfer of Functions:*

The government's formulated public service reform program includes a component on decentralisation and strengthening of the local governments. However, this program has been under implementation since 1993, and very little progress has been registered to date. The responsibility for health and educational service delivery was transferred to newly-established local boards. Moreover, development co-ordination committees at the provincial and district levels have been created, and planning and management machinery have been established in most of the 72 district councils. However, these efforts are principally a deconcentration of central government, rather than devolution of its functions and authorities to the local government levels. Development and adoption of a decentralisation policy is an important step, but so far, these steps have not influenced the actual infrastructure and service delivery. In the field of road maintenance, the legislative and regulatory regime has made some enabling initiatives, but this has not substantially improved the standard of maintenance of the local feeder road network. The road system has deteriorated to such a degree that there is a consequent loss of public confidence in the councils. Some pressure has been exerted on the road departments to take over the main maintenance functions, which, however, are still the responsibility of the sub-national governments. Similarly, under the 1975 reform, primary education was transferred to the sub-national governments, but the follow-up of this initiative did not prove to be feasible. Presently, sub-national governments are only responsible for the provision of pre-school nursery centres.

*Private Involvement:*

According to the 1991 Local Government Act, sub-national governments may discharge all or any of the functions set out in the Act and involve the private sector in these functions. Several infrastructure and service provision initiatives have been made by sub-national governments, with regards to the degree in which the *private sector* has been involved. This is a follow-up to the challenge of the government's policy of deliberation, and - thanks to many major changes, particularly since 1991 - it has been possible to put a regulatory environment into operational terms. The research has shown that the regulatory framework currently entails no major constraints for the sub-national action in this area. In the urban areas, a number of private operators have entered into partnership with councils in the provision of sewerage, water supply and road-related works .

*Influence on the Staffing Situation:*

Despite the removal of central government control, according to the 1991 Local Government Act, the central government still directs the decision-making processes of local councils regarding the hiring and firing of chief officers. This area can still be dictated by the political objectives of government ministers, and the Ministry of Local

Government and Housing, during the period for this research, has suspended chief officers in a number of councils. Moreover, political control from the central government has resulted in delays in response to urgent needs by sub-national governments.

*Sub-National Housing Property:*

The forced sale of sub-national housing properties has decreased the sub-national governments' creditworthiness. This has also created heavy constraints on the ability to collect rents and water charges, as the central government has eroded the potential and efficiency of sub-national government enforcement procedures against non-payment by existing occupiers.

*Land Management:*

The present legislation on ownership of land, although better than the previous legislation, does not facilitate the development of land and land markets or enhance investment in productive activities on the land. There is a two-step procedure for obtaining a long-term leasehold (12 years) that might improve the external financing of investment through mortgaging or similar financing arrangements. Central government's bureaucracy and the lengthy process that accompanies the provision of tenure (ownership) documents hamper optimal economic land use and agricultural improvements. They also hinder a more appropriate improvement of the sub-national government's tax base.

In conclusion, the absence of a clear regulatory regime in the area of ISP has complicated the creation of a supportive environment within which councils can discharge their functions. Deliberate flouting of laid down procedures and legislation has been evident at the level of both central and sub-national government authorities, sometimes developed as practises on approval procedures. Under the 1991 Local Government Act, councils are supposed to have more decision-making autonomy to control their local self-government, but, in practice, central government retains power to control the activities of the sub-national governments in several important respects. This phenomenon has been confirmed by the research and by evidence from all the sample sub-national governments.

## 8.6.2 Recommendations on the Regulatory Framework (Chapter 6)

### **Major Recommendations:**

6.1 ST: The *budgeting procedure*, including the requirement of forwarding budgets for approval, should be addressed in order to save time and avoid uncertainty; it should also follow a previously outlined time schedule. Central government's control on the budget approval procedures should be related exclusively to compliance with the principal issues of the National Plan Priorities and previously established guidelines and policy principles. Ad hoc *interference* in matters that should be considered as issues within the competence of the local governments' decision-making autonomy should no longer take place. The *first step* should be development of a clear guideline for the relationship between the central and local governments on budget procedures.

6.2 ST: There is need for a clarification of the *regulatory framework*, especially with regard to its operational implementation. Areas that are currently unclear and that affect the urban poor include regulations on water quality, particularly problems related to latrine effluent and abstraction regulations. The relationship between the different ministries in charge of sub-national services, especially main line ministries (MLGH and the Ministry of Energy and Water Development), should be investigated further in order to improve the current obscurity in the sector's regulatory framework.

6.3 ST/MT: In the existing legal framework of the Local Government Act, instruments for financial management like *financial regulations*, general management, accounting systems and auditing and stores manuals should be reviewed and updated regularly by MLGH and MOFED to institute appropriate controls on financial resources and improve accountability in local authorities.

6.4 ST/MT: The system of *local government transfers* should be regulated by law that lays down the main procedures for the calculation, distribution and information/transparency of the state grants. ST (and first step): Procedures for state grants should be developed in parallel with the calculation of the SNG financial needs. MT (and second step): A law on state transfers should be adopted.

6.5 ST: The possibility for the sub-national governments to have greater *autonomy in the setting of taxes without central government interference* (rates and personal levy) as well as user fees and charges within certain ceilings or minimum/maximum intervals should be investigated.

6.6 MT: Appropriate legislation should be established to ensure that central government does not interfere unnecessarily in the affairs of local governments and to regulate disputes between the two levels of government.

***Other Recommendations:***

- ST/MT: Local councils, by policy and measures from central government, should be encouraged to seek *alternative ways to facilitate service provision*, e.g. by commercialisation, public tender, contracting out of the management of commercial ventures to the private sector and facilitated by the development of the monetary and regulating capacity enhance efficiency and viability.
- ST: The *links between the sub-national government councils and the district co-ordination committees* should be investigated in detail in order to clarify the competence of these bodies and to support the coordinative role of the councils at the local level.
- MT: The constraints and bottlenecks related to the *land management system* and to the security of long term tenure and/or ownership should be substantially reduced in order to secure better access to borrowing and ownership security.

***8.7 The Institutional Framework (Chapter 7)***

***8.7.1 Main Findings and Conclusions***

***Central Government Objectives:***

The essence of the central government policy concerning the institutional framework for sub-national governments is outlined in the Public Service Reform Programme, 1993. The intention is to improve the administrative capacity of government at all levels to make an efficient structuring of the organisation, to decentralise responsibilities and to focus on human resource development. The intention behind the present rules is also that the sub-national governments should have competence concerning their own staff, including hiring and firing.

***Main Findings from the Study:***

Chapter 7 has analysed the local government institutional environment, including their capacity to administer and carry out infrastructure and service provision in an efficient way. The analysis has shown a number of weaknesses and problems in the relationship between the central and local governments. The analysis has also shown some acute problems within the structure and organisation of the sub-national governments (that is, between the different levels of decision-making and, in particular, between politicians and administrators). The general conclusion is that the present administrative capacity at the sub-national level is too weak, considering the importance of the tasks for which sub-national governments are responsible.

In general, the research indicated that administrative staffs in the six sample local authorities lack *training* and experience with administrative tools, especially regarding budgeting and accounting. The study has revealed that personnel with the capacity to innovate, lack the necessary skills in the managerial and technical areas in most of the councils. One of the reasons for this is that the councils have very weak capacity to attract and retain qualified personnel. The work conditions and salary levels are so unattractive that it is very difficult for the sub-national governments to attract qualified personnel, particularly in the more technical fields.

There is a strong tendency to *overstaff* at the lower levels of the administration and under-staff at the higher and more qualified positions. The sample studies showed that many specialist and managerial positions were vacant due to lack of finance, low salaries and low incentives to work in these positions. These problems were created during the second republic, but still exist.

There exists a rather contentious and dysfunctional relationship between senior council officers (especially the chief executives) and the elected councillors. Councillors are involved in many technical decisions, including those of a purely management nature. As a result, council managers have little latitude to play an innovative role in ISP. The Local Government Act lacks a clear description of the roles of the chief executive and the councillors. In general, this omission has led to a lack of decision-making power on technical issues at the technical/managerial level. In addition, there is a huge need for training of newly-elected councillors, especially as many of them have limited educational background and political experience.

The Study has also revealed that there is inadequate policy- and planning-relevant information and data generation within the sample local authorities. As a result, the little planning that takes place in councils is undertaken with insufficient data. All the

sample councils lack a plan of action for future innovations and have a weak link between planning and budgeting.

There is weak administrative capacity within all sector areas. The most severe problem is in the area of *local government finance and budgeting*, particularly as it relates to the capacity to develop realistic budgets, link budgets to realistic objectives and plans for service delivery, manage budget procedures and supplementary appropriations, set objectives for future finance, control expenditure during the budget year, develop proper accounting and audit the accounts. In addition, the councils' financial viability is worsened by their failure to apply appropriate cost-recovery rates to the users of their services. On average, the council's administration of the rates has generally been weak throughout the process of budget estimation, rate poundage fixing and collection.

Within the area of land management, two major problems have been identified. Firstly, the management capacity of sub-national governments in land management and physical planning is weak in terms of manpower and skills. Secondly, the whole procedure of land management, especially the relationship between the different levels of government, seems to be quite centralised, time consuming and lacks co-ordination among the different authorities involved. More than 90% of Zambian farmers do not have deeds to the land they occupy. Furthermore, medium-term land tenure often takes 6 months or more to acquire and requires the involvement of a number of authorities (long term tenure - more than 12 year - is impossible to attain). In addition, there is a lack of an updated plan for land use at the local level.

Physical planning in the sub-national governments is reactive in nature; that is, the activities are based on urgent problems that occur here and now and not on the setting of any future strategic goals. One example is the informal settlements around larger cities where the settlers determine the spatial pattern of urban development.

The current decision-making arrangements of the councils studied do not give the users of council services sufficient opportunity to have their views absorbed into the planning process.

The relationship between the central and sub-national government levels seems, in general, to be based on a top-down model that has a negative influence on innovation incentives at the local level.

Collectively, the above-mentioned problems mean that the operative environment in Zambia *vis-à-vis* sub-national autonomy is such that the 'innovations' within the councils are mainly externally derived and funded.

The central government has launched a number of initiatives to address the above-mentioned problems (for example, the Planning Programming and Budgeting Component), but the effects of these programmes have still to be seen.

#### 8.7.2 Recommendations on the Institutional Framework (Chapter 7)

<b>Major recommendations:</b>
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- 7.1** ST: Further identification of main competences and measures to strengthen the sub-national councillors and officers may contribute to the strategic and innovative development of the sub-national administration by a more clear delineation of the policy-setting competencies and daily management competencies
- 7.2** ST/LT: Sub-national governments should upgrade their human resource function in order to improve the recruitment and enhance the capabilities of general managers and key staff. They should encourage and facilitate the delineation and operation implementation of the sub-national component of the PSRP. ST: The possibilities of introducing stronger incentives to attract high ranking and qualified staff to key positions in sub-national governments should be investigated. LT: In the medium and long term, a new payment code for these people should be developed.
- 7.3** MT: The ongoing reform programme concerning the retrenchment of unqualified personnel in councils needs to be complemented by an effective organisational performance monitoring mechanism that should strive at setting clearly measurable and realistic organisational objectives. MT: The retrenchment of staff in lower positions should be supported in order to establish more highly-qualified specialist and managerial positions at the sub-national government level. This level has not even been able to pay for the retrenched people. Therefore, the central government and the donors should support this endeavour.
- 7.4** MT: Sub-national governments should develop their decision-making and administration to incorporate the concept of “*good governance*”, whereby citizens are systematically involved through means of user-surveys, community participation and by delegation of management functional areas of ISP in accordance with target-oriented performance management.
- 7.5** MT/LT: A supportive and effective *management information system* should be established that can provide accurate, reliable, timely, and user-friendly data that is required, not only for organisational performance monitoring of key ISP indicators, but also for the broader aspects of policy analysis. The absence of this type of information in all the six councils<sup>99</sup> mitigates against the central and sub-national governments’ ability to respond accurately and promptly to incoming signals and emerging trends. The sub-national governments’ capacity in economic forecasting, programming and strategic planning also depends on the availability of timely and reliable data (data that might be established through the billing and revenue generating process). Furthermore, the possibilities to share/reuse data (e.g. ownership-, property-, land-, and land use files) among various ISP functions should be investigated and emphasised. This process can be phased, starting with the larger sub-national governments on a pilot basis.
- 7.6** ST/MT: The possibility should be promoted for further development of the training centre

<sup>99</sup> Ndola is somewhat different in this regard. The Council, over the years, has built a sizeable database that has been quite useful in management decision-making. The fact that the Council has also been subjected to a number of studies has contributed to its being in a much better position in terms of ISP data.

	for local government staff to conduct sustainable and ongoing specialist training within all sector areas. This takes time to fully develop, but the preparation should start now. <u>MT</u> : Sub-national governments should investigate the possibility of undertaking training as a joint sub-national government activity, either within the framework of the association of local authorities or through the networking of a number of sub-national governments. This objective should be supported by the central government and by donors.
7.7	<u>MT</u> : Strong <i>budget, accounting and auditing units</i> , manned by highly qualified and competent personnel, should be established at the local level, and financial management improved. The first <u>ST</u> step should be training and exposure to new technology and financial accounting systems. Also training in financial management for non-financial managers and councillors should be encouraged in order to promote accountability.
7.8	<u>ST</u> : Central government guidelines concerning the budget process and budget formats should be revised regularly. Books of accounts in councils and ministries need to be brought up to date.
7.9	<u>ST</u> : The appointment, promotion and training of the <i>accounting and internal audit</i> cadres for councils should generally be the <i>responsibility of the sub-national authorities</i> . This will enable them to appoint qualified officers and to have firm control over their operations, thereby improving discipline, accountability and general performance. The external audit should be carried out by independent auditors trained within the field of local government finance.

#### Other Recommendations:

- ST: More focused *training of the newly-elected local government councillors* regarding their roles and duties should be supported. As the first step, the Ministry of Local Government and Housing should draw up a programme of workshops for the newly-elected councillors and the chief officers concentrating on the need to adhere to financial regulations and to raise awareness on the need for these officials to appreciate and understand their role in ensuring accountability of public funds.
- ST: An investigation should be initiated regarding how to develop a *smoother land planning and management process*.
- MT: At present, municipal governments do not draw up indicative medium- or long-term financial plans for capital or recurrent expenditure. Such plans should be facilitated since they can provide a valuable discipline, forcing proper evaluation of the longer-term financial implications of current decisions, including identification of potential shortfalls in revenues and options for correcting them. It can be argued that their introduction is not practicable until economic conditions improve and stabilise; but work should begin now on developing a framework for later medium-term implementation.
- ST: Councils have, at various times, decided that they wish to dismiss town clerks or other chief officers according to the Local Government Service Regulations 1996. This has caused conflicts between the ministries and the councils concerning who have the final word in these cases. It is

recommended to investigate here and now the present procedures in order to define more precisely the competence in these cases.

## CHAPTER NINE

### HIGHLIGHTS OF THE NATIONAL WORKSHOP

#### **9.1 Introductory Remarks**

The research on Fiscal Decentralisation and Subnational Finance in Relation to Infrastructure and Service Provision was presented to the key national stakeholders at a National Workshop in Lusaka 5–6 May 1999.

The workshop was attended by the Vice-Minister of Local Government and Housing, the Permanent Secretary and other key representatives from the ministry, the Ministry of Finance and Economic Planning, the Ministry of Legal Affairs and other ministries, the Association of Local Authorities, the sample local authorities Kampala, Livingstone, Petauke, Kalulushi, Ndola and Chibombo, representatives from other invited local authorities (Kabwe and Kitwe), Central Statistical Office, the University, INESOR, the World Bank, NALAD, DANIDA, USAID, UNDP, the British High Commission, RSU, SHRDO and other stakeholders in the field of local government (in total 70 participants). The workshop was opened by the Vice-Minister of Local Government and Housing and closed by the Permanent Secretary.

The objectives of the workshop were to discuss the research results and the fiscal decentralisation experience in relation to local government service provision and infrastructure in Zambia. The objective was also to discuss and identify approaches to the reform of the fiscal, regulatory and institutional frameworks for local authorities in Zambia. Finally, the workshop compared the results and experiences from Zambia with the experiences from other countries.

An in-depth discussion of the Study findings and recommendations was organised in three working groups followed the presentation of the research. The discussions focussed on a number of specific issues of special importance for the functioning of the local authorities in Zambia.

The workshop was finalised by a joint adoption of the workshop findings and recommendations contained in sub-section 9.2 below.

## 9.2 Focal Points Regarding Findings and Recommendations of the National Workshop

Main Findings	Main Recommendations
<p><b>Decentralisation Policy and the Related Legal and Regulatory Framework</b></p> <p>1.1 The absence of the Decentralisation Policy in Zambia has caused difficulties regarding the division of ISP responsibilities among service providers.</p> <p>1.2 While the study shows that 57 per cent of the total expenditures for all local authorities goes towards the wage bill, the non-wage expenditures are largely employee-related. As a consequence, 80 per cent of all council expenditures go to employee emoluments. For example, in 1997, Lusaka City Council had a wage bill of K6.8 billion, but total revenue for the same year amounted to only K6.3 billion. The current administrative control of reducing staffing levels and the natural wastage has not worked.</p>	<p>1.1 The government should adopt, with minimum delay, its Decentralisation Policy.</p> <p>1.2 Councils should be given autonomy on all resource-related issues, e.g. human, financial, and technological resources. In terms of sequencing, decentralisation should first and foremost focus on financial and legal devolution and administrative issues.</p> <p>1.3 The review of any laws and practices that are detrimental to the autonomy of local governments should be undertaken by the government, in collaboration with the Local Government Association of Zambia (LGAZ). The output of this review should include an Action Plan.</p> <p>1.4 Local authorities should be made part of the central government Public Sector Reform Programme. In this regard, each local authority should undertake an urgent restructuring plan, detailing, among others:</p> <ul style="list-style-type: none"> <li>• new employment structure;</li> <li>• financial requirements for retrenchment, worked out with the help of LGAZ;</li> <li>• plans for hiring and firing staff;</li> <li>• required expenditures to meet adequate service provisions;</li> <li>• own revenue; and</li> <li>• financing gap.</li> </ul>
<p><b>Financial and Fiscal Framework of Local Authorities</b></p> <p>2. Almost all the legislative acts impose very serious constraints on the ability of the councils to raise both own and shared revenues. In some cases, the central government itself has failed to meet the mandatory obligations of financing local authorities, contrary to the provisions of the law that include the Personal Levy Act, Rating Act, Local Government Act and Renting Act.</p>	<p>2.1 An intergovernmental fiscal framework should be developed for the purpose of removing the identified impediments to local government finance. In this respect, it is recommended that a body should be established which shall address local government finance and fiscal issues, particularly with respect to the following:</p> <ul style="list-style-type: none"> <li>• establishing the formula of revenue sharing</li> </ul>

	<p>and collection;</p> <ul style="list-style-type: none"> <li>• establishing performance standards;</li> <li>• develop a formula for allocating grants; and</li> <li>• advancing on the financial and administrative structures of councils.</li> </ul>
<p><b>Budgets, Accounts and Fiscal Administration</b></p> <p>3.1 The financial administration of the local authorities is very weak, as evidenced by the increase in debtor position (uncollected revenue).</p> <p>3.2 The budget cycles of local authorities have been found to be out of tune with the central government budget cycle, whereby submissions are made long after the central government budget has been approved. In addition, activity-based budgeting as required by the Ministry of Finance and Economic Development has not yet taken hold in the councils. Thus, local authorities' budgets neither provide an essential input in the central government budget processes, nor clearly specify the requirements for adequately meeting the demands of ISP.</p>	<p>3.1 Budgetary control should be devolved to councils.</p> <p>3.2 All councils should update their accounts and ensure proper auditing and maintenance of proper financial records. This would enhance their creditworthiness and ability to borrow.</p> <p>3.3 All local authorities should adopt activity-based budgeting and submit their estimates well in good time for it to be an input to the central government budget.</p> <p>3.3 The Ministry of Local Government and Housing should set up a desk that looks at the finances of local governments as well as the consolidation of budget estimates of the various councils as input into the central government budget.</p>
<p><b>Staff Salary</b></p> <p>4. The effort by the Local Government Association of Zambia to reduce salaries levels by negotiating a low package with the unions has failed to work. Although the government agreed to award a higher salary, it has not paid the councils the difference up to now. Consequently, salary arrears are on the increase.</p>	
<p><b>Sustainability of Infrastructure and Service Provision (ISP)</b></p> <p>5.1 There is lack of prioritisation in the efforts by the councils to improve the effectiveness and efficiency of the existing services by way of rehabilitation and/or expansion.</p> <p>5.2 There are no maintenance programmes put in place to ensure sustainability and optimal use of the existing infrastructure and services.</p>	<p>5. Councils should put in place maintenance programmes to ensure sustainability and optimal use of existing services.</p>
<p><b>Co-ordination and Co-operation with Donors</b></p> <p>6.1 Most capital projects are donor-funded. Furthermore, these donor-funded projects are controlled and implemented by either the central government or the donors themselves, with no or very little involvement from the councils.</p>	<p>6.1 The donor community and NGOs should co-ordinate with councils during the implementation of projects within the councils' jurisdictions.</p> <p>6.2 Donors should not take a centre-stage. Their role should be that of a facilitator who should</p>

<p>6.2 There is a lack of co-ordination among the providers of ISP. The main co-ordinating body at district level, the District Development Co-ordinating Committee (DDCC), has no legal authority to co-ordinate or supervise projects; hence, it is not effective in playing this role. Moreover, no funding is channelled through DDCC; the little funding made available is through the Constituency Development Committee (CDC), which administers the constituency development fund.</p>	<p>provide the technical assistance and the requisite funding. 6.3 The amendment of sections 67 and 48 of the Local Government Act should be effected in order to allow councils to co-operate with the private sector and the donor community. 6.4 There is a need to strengthen structures such as the District Development Co-ordinating Committees by legislating them. 6.5 The District Development Co-ordinating Committee (DDCC) should be legally constituted to enable it to carry out the function of co-ordinating projects at the district level more effectively.</p>
<p><b>Strategic Planning</b> 7. There is no strategic planning taking place in the councils. Moreover, there is lack of qualified manpower to prepare as well as implement such strategic plans.</p>	<p>7. Councils should apply strategic planning in their operations and, consequently, prioritise their efforts in the rehabilitation and/or expansion of the existing infrastructure and services, with a view to improving their overall effectiveness and efficiency.</p>
<p><b>Community Participation and Private Sector Involvement in ISP</b> 8.1 There is no innovativeness on the part of councils by incorporating the elements of entrepreneurship and local ownership in ISP. 8.2 There is very little or no community participation in ISP. 8.3 The current implementation of the decentralisation policy appears to be a means of securing a power base at the grass roots level. 8.4 There is very little or no private sector involvement in ISP by way of co-operation or commercialisation.</p>	<p>8.1 Councils should be more innovative by incorporating the elements of entrepreneurship and local ownership in ISP. 8.2 There is need to enhance community participation in ISP. 8.3. With respect to community participation, councils should embark on a community education programme, highlighting transparency in their operations and also emphasising the costs of service provision. 8.4 The private sector involvement in ISP should be enhanced by way of co-operation or commercialisation. 8.5 Council leadership should be exposed to countries where changes have taken place and yielded positive results. 8.6 Having recognised the institutional weaknesses of MLGH in facilitating the effective discharge of councils' ISP functions, capacity-building initiatives should be extended beyond councils to include departments in MLGH.</p>
<p><b>Cost Recovery and Tariffs</b></p>	

<p>9.1 There is political interference in tariff setting both internally and externally and, thus, tariffs are not determined on cost recovery basis.</p> <p>9.2 The setting of tariffs does not take into account the issues of affordability and willingness to pay, as well as community participation.</p>	<p>9.1 Tariff setting should be undertaken on a cost recovery basis.</p> <p>9.2 A further fully-fledged study should be undertaken on tariff policy to address more comprehensively the issues on tariffs, willingness to pay and affordability.</p>
<p><b>Decentralisation of Land Management</b></p> <p>10. Laws and regulations governing land allocation and management are cumbersome and still not adequately decentralised.</p>	<p>10.1 There is need for decentralisation, with respect to land management.</p> <p>10.2 Land management should be devolved to councils.</p>
<p><b>Association of Local Authorities</b></p> <p>11. There is a strong need for a viable association of local authorities in Zambia to take care of their interests.</p>	<p>11.1 The donors should support the local authorities via the local government association.</p> <p>11.2 The councils themselves should better support their association and pay their fees.</p>
<p><b>Training of Staff of Local Authorities</b></p> <p>12. There is inadequate or non-existent training capacity in the councils.</p>	<p>12. There is a need to enhance the training capacities in the councils.</p>